

THE IMPACT OF THE FORECLOSURE CRISIS ON PUBLIC AND AFFORDABLE HOUSING IN THE TWIN CITIES

FIELD HEARING BEFORE THE SUBCOMMITTEE ON HOUSING AND COMMUNITY OPPORTUNITY OF THE COMMITTEE ON FINANCIAL SERVICES U.S. HOUSE OF REPRESENTATIVES ONE HUNDRED ELEVENTH CONGRESS SECOND SESSION

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THE IMPACT OF THE FORECLOSURE CRISIS ON PUBLIC AND AFFORDABLE HOUSING IN THE TWIN CITIES

Saturday, January 23, 2010

U.S. HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON HOUSING AND
COMMUNITY OPPORTUNITY,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The subcommittee met, pursuant to notice, at 12 p.m., in the Minneapolis Central Library, Pohlad Hall, 300 Nicollet Mall, Minneapolis, Minnesota, Hon. Maxine Waters [chairwoman of the subcommittee] presiding.

Members present: Representatives Waters and Ellison.

Also present: Representative McCollum.

Chairwoman WATERS. This hearing of the Subcommittee on Housing and Community Opportunity will come to order. Good morning, ladies and gentlemen.

AUDIENCE. Good morning.

Chairwoman WATERS. Welcome to the Subcommittee on Housing and Community Opportunity's Minneapolis field hearing on, "The Impact of the Foreclosure Crisis on Public and Affordable Housing in the Twin Cities." I would like to begin by thanking the Minneapolis Central Library for graciously allowing us to use this space for today's hearing. I would also like to thank Congressman Ellison's staff for their effort and assistance to ensure a successful and productive hearing.

Of course, I must also mention the leadership of Congressman Keith Ellison, a very engaged member of the Housing Subcommittee and the Congressional Progressive Caucus. Mr. Ellison has been a champion for individuals and families bearing the brunt of this foreclosure crisis, particularly for renters displaced as a result of foreclosure. As many of you know, he was the author of the Protecting Tenants at Foreclosure Act of 2009, which was signed into law by the President in May. Go ahead, you may applaud. And Mr. Ellison has been my ally on the subcommittee as we work to preserve public and assisted housing during this severe economic downturn, and to rid our housing of the hazards caused by lead paint. Give him a round of applause for that too.

I would also like to thank Congresswoman Betty McCollum of the 4th District of Minnesota, a strong supporter of labor and working families through her role on the very important Appropriations Committee. Ladies and gentlemen, without her work on the

Appropriations Committee, no matter what we authorize, we would not be able to get it unless it was funded. So give her applause for being able to do that. And she is a Member who has taken the lead in confronting the global AIDS pandemic. Thank you for making it here to support and engage in this important discussion. And I would, because we have to do it according to our procedures, request unanimous consent that Congresswoman McCollum be considered a member of the subcommittee for this hearing. Without objection, it is so ordered.

The foreclosure crisis has devastated neighborhoods all across the country, from the district I represent in Los Angeles to here in the Twin Cities. In Hennepin County, mortgage foreclosure sales have increased by nearly 800 percent in 2008 compared to 2002. In the next 5 years, the Center for Responsible Lending predicts that there could be as many as 13 million additional foreclosures nationwide.

Because the foreclosure crisis has created so many vacant homes, one would think that the silver lining of this horrible situation would be lower prices for renters. Unfortunately, this is not the case, primarily for two reasons. First, the growing number of low-income households far outpaces the amount of available affordable housing. With long-term unemployment at its highest levels since 1948, affordable housing production can't keep up with need.

Second, we know that foreclosed housing doesn't necessarily become ownership or rental opportunities. Often, banks unload foreclosed properties for pennies on the dollar to speculators and flippers, who frequently fail to do basic maintenance or rehabilitation. As a result, the neighborhoods in which these homes are located remain blighted, and communities are deprived of a potential renting housing resource. We have all heard the stories of boarded-up houses stripped of their piping and sinks, ignored by their owners and attracting crime to neighborhoods.

These trends are putting strains on our public and assisted housing system. I know that in L.A. County, there are about 17 times as many families on the waiting list for public housing as there are units. This is the case in Minneapolis as well. One of our witnesses today, Chip Halbach, noted in an article that 12,000 households applied when the public housing waiting list was opened in 2008. If our housing resources remained as they are today, the 12,000th person will not be able to get assistance until July 2034.

Nearly 2 years ago, I drafted the Neighborhood Stabilization Act, recognizing that we need to connect the foreclosure crisis with the lack of affordable public and assisted housing. After a hard fight with the previous Administration, I was able to secure \$4 billion in Neighborhood Stabilization Program funds in the summer of 2008. The following February, we were able to get an additional \$2 billion in funds through the economic stimulus bill.

Last week, we were very pleased to announce and to learn that HUD made their grant announcements for the second round of NSP, and both the City of Los Angeles and the Twin Cities had winning grant applications. With over 300 grant applications scored by HUD, and only 50 or so grants granted or awarded, it's a testament to both the work of people on the ground, and to the magnitude of the problem in our communities.

I know that over \$100 million in NSP funds were awarded directly to public housing authorities under the second round of funding. Other housing authorities are working with their cities and States to pair NSP funding with other funding sources such as project-based voucher assistance to expand the number of units for the most vulnerable citizens.

Besides NSP, we have been fighting to preserve public housing. In the stimulus bill, we worked to secure \$5 billion in public housing capital funds, which are now being used to make critical repairs and keep units in the public housing stock, along with additional homelessness prevention grants and project-based rental assistance.

We realize this problem isn't over and the need for resources hasn't been satisfied. That's why Congressman Ellison and I, along with seven members of the Congressional Black Caucus who serve on the Financial Services Committee, worked hard to get an additional \$1 billion in Neighborhood Stabilization Funds in the Wall Street reform bill that passed the House in December. We also worked to secure \$3 billion in assistance for unemployed homeowners threatened by foreclosure. We still need to get this bill through the Senate. The fight isn't over and it won't be easy. But Congressman Ellison and I will be advocating for this funding over the coming months.

I'm eager to hear more from our witnesses about both the foreclosure crisis, and the shortage of public and assisted housing. Again, thank you for welcoming me to Minneapolis today. I would now like to recognize Congressman Ellison to make his opening statement. Thank you very much. Congressman?

Mr. ELLISON. Chairwoman Waters, let me thank you for coming to Minneapolis, and let me offer a very hardy and warm welcome to you and your staff who worked so hard to make this hearing a reality. Let me also thank you, on behalf of our State and our Nation, for all the work that you have done, not just in the area of housing, but on the critical issue of Haiti relief, which is something you have been working on for many, many years, and on the issue of Hurricane Katrina relief, which is something that you have been absolutely relentless on, and also your work over the years for equal opportunity for women, communities of color, and all Americans. Thank you very much.

Let me also thank my twin sister from St. Paul, Congresswoman Betty McCollum, for joining us today as we address regional efforts to increase affordable housing. Congresswoman McCollum is an appropriator and on the Appropriations Committee, and therefore is an essential partner for us as we move forward to try to make sure that our policy and our resources match up together to serve community.

Also let me thank State and local leaders, many of whom are here today, for their excellent work. It's an honor to serve with you, in partnership with you, and I would like you to know that over the time that I have been able to serve as a Member of Congress, your assistance and your information has been indispensable to our overall program, and so thank you very much.

I would like everyone to consider also that the advocates and the citizens who keep us informed are essential players, and that we

think that you are essentially the most important component of our efforts, and we thank you for coming and all of the work that you do. Please continue to keep us informed and please keep your ideas coming; they are essential to our success.

Please consider this hearing today to be an important information-gathering hearing, just like any other congressional hearing you might have on Capitol Hill, but unique in the sense that it is in our community and gives us an opportunity to talk about some of the unique challenges that we're facing as residents of the Twin Cities, but also things that may apply generally throughout the country. Many ideas gathered at field hearings make their way into national legislation, and I hope that we'll be able to honor some of the important details that can lead us in that direction in this hearing.

According to data from RealtyTrac, 3 million households received foreclosure notices in 2009. While the national foreclosure rate has slightly decreased, Minnesota posted a 56 percent increase in foreclosures from 2008. Last year, 6,000 households in Minneapolis alone received delinquency notices. These displaced households are looking for help to find safe and adequate housing that they can afford. That's why Representative Waters and I fought for increased funding for the Neighborhood Stabilization Program, to get help for our communities. And as I indicated earlier, I look forward to working with all of you to make sure that the legislative intent of the NSP program gets carried on through right to the end user, and so I look forward to working with members of the community and local and State officials to make sure that this happens.

NSP was created to allow local communities to purchase and rehabilitate foreclosed property and create affordable homeownership and rental opportunities. Before the foreclosure crisis, our communities experienced intolerable rates of housing insecurity. Now the need has grown even greater. Federal rental assistance programs are facing unprecedented requests for help. Shelters are seeing as many as 10 percent of their clients directly linked to foreclosure displacement as affordable rentals disappear. Today, we seek input from a broad range of witnesses on how to promote affordable housing in the midst of this mortgage foreclosure crisis.

To our witnesses, I would like to extend a hearty welcome and my appreciation for taking time on a Saturday morning to come to this committee to testify. I want to thank you each for your time, and I know we are looking forward to hearing from each of you.

Chairwoman WATERS. Thank you very much, Congressman Ellison. Now, we will hear from Congresswoman Betty McCollum. I thank you so very much for joining us today. I know today is a busy day and you won't be able to stay for the entire hearing, but we welcome you, and I would like to offer you time for your opening statement.

Ms. MCCOLLUM. Thank you very much, Madam Chairwoman. I am pleased to have the opportunity to be here with you today, but I'm really pleased to welcome Congresswoman Maxine Waters to Minnesota. She can really walk on water when it's hard, as she found out today, because she wore her boots. So she's smart. She's a national leader on housing issues and a long-time advocate for the needs of the most vulnerable in our Nation and throughout the

world. She has been one of the great advocates in Congress, as Keith pointed out, for American response to the earthquake in Haiti. She is a woman I admired greatly before coming to Congress, and I was thrilled that I had the opportunity to serve with her my first term, and she was a mentor. But there's a song that says it all, I wish all of our daughters would be like Maxine Waters.

And it's always great to be with Congressman Ellison. We work together on a lot of issues, and people see our heads together on the House Floor with great frequency. We are twins; I'm the eldest, however.

I'm also a history teacher, social studies, and I think it's important, in order to move forward positively into a future, we have to reflect on the past to see where we are in the present. So our community is doing that, and we're doing that today in this hearing, like so many other communities across the country struggling to meet the basic needs of housing for our neighbors, for our friends, and for our families. You all know that there's a housing crisis today, and it's because affordable housing and the needs of low- and middle-income Americans were neglected for most of the past decade. The Bush Administration also failed to properly regulate the housing market, which led to reckless loans and high-stake gambling on Wall Street. When those bad debts all started to unravel, American families were left with a housing crisis, a financial crisis, and the most painful recession since the 1930's.

The victims of this current crisis are working families and those families who want to work but have no job opportunities in this tough economy. We're committed, our party is committed as Democrats, to work towards solving these problems. We are fighting in Washington for the attention and the resources this housing issue deserves.

The Recovery Act, which passed in 2008, was an essential step toward stabilizing the housing market, but there's much work to be done, there's much retooling to be done to the legislation. Many of our panelists this afternoon were responsible for putting those Federal dollars to work in Minnesota, and we look forward to hearing about what worked well and what can work better.

I want to, again, thank Congresswoman Waters and Congressman Ellison for the opportunity to be with you here today, even though briefly, because I have to go back to the other side of the river, but I want you to know that we stand united in working for you, and Keith and I are putting the needs of our districts, Minnesota and our country first. Thank you.

Chairwoman WATERS. Thank you very much. And I'm pleased to welcome our distinguished first panel.

Our first witness will be Ms. Erika Poethig, Deputy Assistant Secretary, Office of Policy Development and Research, U.S. Department of Housing and Urban Development.

Our second witness will be the Honorable Linda Higgins, member of the Minnesota Senate.

Our third witness will be the Honorable Jim Davnie, member of the Minnesota House of Representatives.

Our fourth witness will be the Honorable Gail Dorfman, commissioner, Hennepin County, Minnesota.

Our fifth witness will be the Honorable Dan Bartholomay, commissioner, Minnesota State Housing Finance Agency.

Our sixth witness will be Mr. Tom Streitz, director of housing policy and development, Minneapolis Department of Community Planning and Economic Development.

And I would like to say to our panel here, I thank you for appearing before the subcommittee today, and without objection, your written statements will be made a part of the record. You will now be recognized for a 5-minute summary of your testimony, starting with our very first witness, Ms. Erika Poethig.

STATEMENT OF ERIKA POETHIG, DEPUTY ASSISTANT SECRETARY, OFFICE OF POLICY DEVELOPMENT AND RESEARCH, U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Ms. POETHIG. Thank you, Madam Chairwoman, Congressman Ellison, and Congresswoman McCollum for inviting me to testify before you today. It's great to be in Minnesota. While I will focus my testimony on the national housing market and the new challenges we face as a result of the foreclosure crisis, I also want to talk about the housing conditions here in the Twin Cities and Minnesota.

Preserving the affordability of rental housing, especially for low-income households, is a crucial challenge for the Nation and its many housing markets. Under Secretary Donovan's leadership, HUD has reasserted its role as a catalyst for expanding the availability of decent and affordable rental housing. If this crisis has taught us anything, it's that the Nation needs a balanced comprehensive national housing policy, one that supports homeownership, but also provides affordable rental opportunities, and ensures nobody falls through the cracks.

Rental affordability is a key priority of Secretary Donovan, but HUD also remains focused on restoring stability to the Nation's homeownership market. In my testimony today, I will cover three issues based on the questions submitted by the committee on this important topic. First, I want to cover the trends in rental affordability across the Nation and here in the Twin Cities. Second, I will discuss the relationship between the foreclosure crisis and dynamics in the rental market and steps that have been taken to address the displacement of renters. Third, I will highlight HUD's efforts to stabilize communities affected by the recent foreclosure crisis.

First, you probably have seen in the press national indicators citing high vacancy rates in the U.S. rental market. But I think it's really important to understand that while some new renters have benefited from this softness, drawing concessions from distressed property owners that have resulted in lower rents, many, many more low-income renters, as Chairwoman Waters pointed out, whose incomes have fallen as a result of unemployment and lost hours worked, have difficulty affording their housing. I want to stress that this softness in the broader rental market has not substantially eased affordability concerns for low-income renters. So in 2008, there were 8.7 million renter households paying more than 50 percent of their income for rent. This is up from 8.3 million households in 2007.

But let me dig under these national statistics and describe how this plays out at the local level. In tight markets such as New York, Los Angeles, and San Francisco, constrained supply and strong demand creates real affordability challenges for renters up the socioeconomic ladder. In other markets, low- and moderate-income renters have an easier time finding affordable options, but they are often located in neighborhoods with high concentrations of poverty and the least opportunity.

A shortage of rental housing affordable to extremely low-income renters is a problem across virtually all housing markets. The American Housing Survey indicates that for every 100 extremely low-income renters in the United States, there are only 44 units affordable and available to them.

In the Minneapolis/St. Paul metro area, extremely low-income households—households earning approximately \$25,000 for a family of 4—face a similar challenge. However, for low- and moderate-income renters, the Minneapolis region does remain considerably more affordable than similarly sized coastal metros, which brings me to my second point, and the central focus of this hearing, what is the impact of the foreclosure crisis on the access to affordable rental housing in the Twin Cities region?

Although it is really difficult to untangle, there is anecdotal and some quantitative evidence suggesting that families are doubling-up with friends or relatives, which has depressed demand for the rental market and contributes to some rising vacancies. The impact of the foreclosure crisis on the rental stock is still unclear. In the same way that the foreclosure crisis has taken single-family properties off the market, foreclosures on multifamily properties have also removed rental housing from the available supply. At the same time, though, there have been some additions to the rental inventory because newly built multifamily units that were intended to be condominiums are now converting back to rental housing.

This problem of displaced renters from foreclosed properties is particularly acute in the Twin Cities area, where 20 percent of the rental stock is in single-family homes and another 12 percent is in 2- to 4-unit buildings. Research from the Humphrey Center at the University of Minnesota suggests that in Minneapolis, nearly 60 percent of foreclosed buildings in 2006 and 2007 were renter-occupied, nearly 60 percent.

Recognizing the tumultuous experience these renters faced during foreclosure, Congressman Ellison introduced, and President Obama signed, as Congresswoman Waters said, the Protecting Tenants at Foreclosure Act in 2009. This Act protects renters in foreclosed properties by allowing them to fulfill their lease unless the property is sold to someone who will be the primary resident, and importantly, requires that tenants receive 90 days' notice before eviction.

What is HUD doing to mitigate the impact of the foreclosure crisis on neighborhoods and renters across the Nation and this region? Under the first round of the Neighborhood Stabilization Program funding, jurisdictions in Minnesota received just over \$57 million to buy, rehabilitate or demolish properties and help homeowners finance the purchase of foreclosed homes. A quarter of this money must be spent to assist households earning less than 50 per-

cent. In Minneapolis, about 52 percent of the units that are expected to be preserved or produced with this funding will serve very low-income households. Last week, Secretary Donovan awarded just under \$2 billion in the Neighborhood Stabilization Program funding through this, a competitive process. The City of Minneapolis was awarded \$19.5 million in a consortium agreement with the City of Brooklyn Park Community Development Department, Hennepin County Housing Community Works, and the Transit Department. In addition, the City of St. Paul was awarded \$18 million.

This region's approach to neighborhood stabilization is a model of coordinated, cohesive community development that makes sufficient use of existing housing development capacity and sets a high bar for providing jobs and other benefits for members of the affected communities. Working in partnership with the Twin Cities Community Land Trust LLC, these jurisdictions have launched an innovative approach to using NSP funds. The Land Bank acts as an intermediary to identify, purchase and coordinate the disposition of foreclosed properties to a pre-identified group of nonprofit developers.

[The prepared statement of Deputy Assistant Secretary Poethig can be found on page 127 of the appendix.]

Chairwoman WATERS. Thank you very much. I did want you to get the part in about how much money they got, that's why I didn't stop you at 5 minutes, but I'm going to have to move on to Ms. Higgins now. Thank you very much.

**STATEMENT OF THE HONORABLE LINDA HIGGINS, MEMBER
OF THE MINNESOTA STATE SENATE, DISTRICT 58**

Ms. HIGGINS. Chairwoman Waters and honorable members of the committee, my name is Linda Higgins. I am the Minnesota State Senator from District 58, and I proudly represent north and downtown Minneapolis.

For several years, I have carried and passed legislation related to foreclosures and the devastation that results. Visitors to my office are used to seeing maps showing the foreclosures by year in Minneapolis. Jaws drop when they see, graphically displayed, the density of foreclosures in my district and the change from year to year. Many comment that there are so many dots overlaid on the other dots, that you can't see the base map. Clearly, we are ground zero for foreclosures in our City, our County and our State. Our mayor says it this way: "When Minneapolis gets the sniffles, North Minneapolis gets pneumonia."

I would like to describe the state of my district after years of foreclosure. Thousands of families have lost their homes. They have moved away or they have moved in with their friends or families. They're still hurting from the loss of that family home, and the opportunity to purchase another home seems a distant dream. The foreclosed-upon properties are being repurchased for considerably less than the previous price that was paid. Some families have been able to purchase great houses that are in pretty good shape. Others are buying homes that have been rehabbed with NSP funds. Others are taking a chance and buying a house that could kindly be called a fixer-upper. Many homes have been vandalized, had

copper stripped, sometimes had fires, and many of those are now demolished.

Other homes are being snapped up by investors. Some of those investors are clueless about how to rehabilitate a house and get good tenants. Others think that the laws really aren't meant for them. They buy a house for pennies, paint some of the walls, maybe they'll scrub the appliances, and then they rent it out. They forget the small details, like maybe the house was condemned, and that there are requirements for lifting the condemnation and getting a new certificate of occupancy and a rental license.

A case in point is a condemned fourplex near my home. It was bought by a consortium of investors from North Dakota. The consortium has bought about 50 properties in North Minneapolis, and they hired someone local to get them in shape to rent out. It has now been 8 months since this gentleman started having work done on this building. A couple of weeks ago, he failed what was to have been the final inspection, so it's still condemned. He lied about being an asbestos abatement contractor, and illegally and dangerously removed the asbestos himself, and he got caught. I understand, unfortunately, that his work at his other properties is equally shoddy.

There are still many blocks in North Minneapolis with more than one vacant house. This proves challenging in the winter especially. The sidewalks might go unshoveled, the pipes will freeze if they haven't been winterized. Sometimes people move in. If the house becomes open to trespass, it will get boarded-up.

And according to a 2001 study in Philadelphia, houses within 150 feet of a vacant or abandoned property experience a net loss of \$7,627 in value, making it more of a burden on the neighboring residents. In addition, a study in Austin, Texas, found that blocks with unsecured vacant buildings had 3.2 times as many drug calls to police, 1.8 times as many theft calls, and twice the number of violent calls, as blocks without vacant buildings.

In 2007, I carried and passed a Predatory Lending Prevention package in the Minnesota Senate which: requires mortgage lenders to verify the borrower's ability to pay the loan; prohibits refinancing that does not benefit the borrower; requires the mortgage lenders to act in the best interest of the borrower; requires that people receive mortgage financial counseling before refinancing a special mortgage, like those no-interest loans from Habitat For Humanity; bans financial penalties for early repayment; requires a mortgage originator to orally inform a borrower of the additional taxes and fees that are associated with the loans; allows the borrowers to sue if they are harmed by predatory lending or an over-inflated appraisal; and finally, it makes mortgage fraud a specific crime all on its own. Minnesota has also passed several progressive measures to address protections for renters affected by foreclosures.

In 2008, I carried a bill that requires landlords to tell prospective tenants that the property is in foreclosure, and to waive any penalty if the tenant in the foreclosed property withholds the last month's rent. Another bill in 2008 provided for mandatory expungement of an eviction if a tenant vacated a foreclosed property before the expiration of the redemption period or if the tenant

never received the required notice to vacate. We will continue working on renter protections in 2010.

Minnesota appreciates the Federal resources that have been sent out to the States to address the foreclosure crisis. However, some Federal policies actually impede our progress here in the States. For example, Federal legislation preempts the State control of federally-chartered lending institutions, making State efforts less effective than they would ordinarily be. Our 2007 bills were called the strongest in the Nation, but in actuality only State banks were actually affected. Since most State legislatures are considerably more nimble than Congress, removing the preemption would allow us to do what needs to be done in a more timely fashion than waiting for a Federal solution. Thank you again for being here today. We really appreciate your interest in this issue, because it affects all of our constituents. Thank you.

[The prepared statement of State Senator Higgins can be found on page 101 of the appendix.]

Chairwoman WATERS. Thank you very much. Our next witness will be the Honorable Jim Davnie.

**STATEMENT OF THE HONORABLE JIM DAVNIE, MEMBER OF
THE MINNESOTA HOUSE OF REPRESENTATIVES**

Mr. DAVNIE. Thank you, Madam Chairwoman, and members of the committee. I'm grateful for the opportunity to testify before you today. I don't need to review for members of the committee the details of the foreclosure crisis that has swept our Nation for the last number of years. While Minnesota did not lead in experiencing that foreclosure crisis, I do like to think that we have led in responding to that foreclosure crisis. And I would like to stress that I believe we did that by working collaboratively across jurisdictions, as this panel reflects, as well as in ways that are broadly inclusive of the multiple stakeholders in our community and across our State.

In 2007, as the foreclosure crisis was first being recognized, we established a working group led by our Attorney General Lori Swanson and a group of stakeholders that she had assembled, and proposed and passed an aggressive platform of foreclosure prevention and mortgage lending reform proposals. I was privileged to author the lead piece of that legislation in the Minnesota House. Senator Higgins, my colleague and friend on this, has explained the critical elements of that proposal in her testimony.

Additionally, to the work that she has described, we worked that year to close loopholes in State law that were being exploited by equity strippers to the detriment of challenged homeowners.

The following year, as our recognition and understanding of the foreclosure crisis evolved and received wider acknowledgment, a broad array of stakeholders was brought together, and drafted a robust package of reforms aimed at easing the fallout, not just for homeowners, but, as has been discussed, the large number of renters who are being caught up in the foreclosure crisis, as well as owners of manufactured homes.

Those initiatives prioritized increased emphasis on foreclosure prevention outreach, to provide assistance to struggling homeowners earlier in the foreclosure process, strengthening and protecting the position of renters swept into the foreclosure crisis, and

providing owners of manufactured housing greater rights and protection.

Additionally, that year both Houses of Legislature bipartisanly passed the Minnesota Subprime Borrower Relief Act, a narrowly targeted proposal that would have allowed lenders and borrowers more opportunity to work together to create mutually agreeable loan modifications based on the ability to pay of the borrower. Unfortunately, that legislation was vetoed by Governor Pawlenty.

Over the same time period, Minnesota Legislatures have increased funding for housing programs and capital investment in affordable housing. We have created the ability for renters to take over the payment of utility bills that are in arrears and deduct those payments from their monthly rent, and fashioned a mechanism for the automatic expungement of eviction records where a renter is a victim of foreclosure.

Looking forward to the 2010 Minnesota Legislative Session that will begin in just a few weeks, we're looking at a significant proposal for bonding, for affordable housing, and proposals to streamline the foreclosure notification process, to, again, get to those challenged homeowners as early in the process as possible.

Looking forward to Federal assistance, we are, as has been stated, extremely grateful for the \$19.5 million that Minneapolis has received and other communities from the American Recovery and Reinvestment Act. In speaking with advocates in preparation for this hearing, what they called for, and I hear their voices, is a 1-2 punch from the Federal Government. Punch 1 is additional resources for affordable housing, and punch 2 is aggressive reforms of our financial system in ways that create more responsible lending and protection for consumers, so that they can go into the homeowner process secure that their investment in their families and communities will remain.

Again, I want to thank you for the opportunity to testify before the committee today.

[The prepared statement of State Representative Davnie can be found on page 87 of the appendix.]

Chairwoman WATERS. Thank you very much. Our next witness will be the Honorable Gail Dorfman.

**STATEMENT OF THE HONORABLE GAIL A. DORFMAN,
COMMISSIONER, HENNEPIN COUNTY, MINNESOTA**

Ms. DORFMAN. Chairwoman Waters, on behalf of the residents of Hennepin County and my colleagues on the County Board, I am pleased to welcome you here today to Minneapolis and Hennepin County for this important field hearing. Our own Congressman Keith Ellison has been at the forefront of efforts to effectively respond to the foreclosure and housing crisis both nationally and here at home. We are thankful for his leadership and representation, and we know that we're lucky to have this strong congressional team of Congresswoman McCollum and Congressman Ellison.

I want to say up front that the most important and effective action we have taken is to come together as a community to collaborate and innovate as partners through the Minnesota Foreclosure Partners Council. We have a coordinated plan focused on data col-

lection, counseling and outreach, community recovery, and legislative and legal strategies, some of which you have heard about. And while the pace of new foreclosures slowed a bit in 2009, and our prevention and revitalization efforts grew, in large part due to the influx of Federal support, we cannot say yet that we have turned the corner on this crisis. Instead, we have seen the foreclosure problem shift from the city to the suburbs, and from being caused by mortgage products to now being impacted by job loss and unemployment.

Hennepin County is the largest unit of local government in Minnesota. There are 46 municipalities, with a population of just over 1 million people. The number of annual mortgage foreclosure sales in Hennepin increased from over 3,000 in 2006, to 5,600 in 2007, to more than 7,300 in 2008, and went back to the 2007 level this past year. That's just shy of 22,000 foreclosures in 4 years, representing 4 percent of our overall housing stock and particularly devastating urban and suburban communities with the highest concentrations. As a result, home values have fallen dramatically in the neighborhoods with the most foreclosures, with a 14 percent decline in home values in North Minneapolis, and 10 and 12 percent declines in the Cities of Brooklyn Park and Brooklyn Center.

Let me just touch briefly on what we have been doing at the County. We have provided prevention counseling resources for at-risk homeowners and renters through the Minnesota Home Ownership Center, HOME Line, and Legal Aid that have been accessed by more than 3,200 households. We have held 25 foreclosure workshops at our libraries, like this one, and distributed a workshop video seen by thousands more.

We have stepped up efforts through the Sheriff's Office and community partners to make sure that both owners and renters facing foreclosure understand the process and their rights under the law.

We have been aggressively prosecuting mortgage fraud cases through County Attorney Mike Freeman's office. To date, 24 persons and companies have been convicted, and charged cases involve 210 properties with over \$60 million in fraudulent loans.

Hennepin County was awarded \$8.6 million in NSP funding to work with 7 targeted suburban cities, along with Habitat and the Land Trust, to acquire and rehab abandoned and foreclosed homes and to primarily assist first-time home buyers, with our NSP goal of providing affordable homeownership for 200 households this year. We have invested an additional \$2 million through the County Affordable Housing Capital Fund and Federal HOME Program to rehab another 79 foreclosed and vacant properties in 2009. And since 2000, the County has provided over \$35 million in local county funding to assist in the preservation and new construction of over 3,400 affordable units.

We are targeting some of our Homeless Prevention and Rapid Re-Housing (HPRP) funds to help renters at risk of homelessness due to foreclosure—65 percent of the foreclosures in the City of Minneapolis involve rental properties, and approximately 10 percent of the families who showed up in our homeless shelters over the past 2 years are renters coming from these properties.

HPRP, frankly, is the best tool we have right now to address the problem of renters impacted by foreclosure, through our City/Coun-

ty HPRP partnership and our contracts with community agencies. Legal Aid is providing the legal assistance that buys the family a little more time, and St. Stephen's provides the relocation assistance so that families never have to even enter a shelter to get help. Just since October, these two agencies have served over 130 people and 40 families.

Let me share just one story to illustrate how well this is working. Legal Aid has been working with a single mom with two children who has rental housing with a Section 8 voucher. She moved in last year, and was notified just before Thanksgiving that she had to move out within 48 hours because the house was in foreclosure. Despite the requirements of State and municipal law, the landlord had not disclosed the foreclosure. Legal Aid attorneys were able to get the 48-hour notice retracted. The bank then issued the 90-day notice, but Legal Aid informed the bank of her Section 8 status and was able to extend the family's stay to when their lease ends this summer. Legal Aid is now working with the family and St. Stephen's to make sure the utilities stay on and that the family is resettled into a new home next summer. Without this help, this family would surely have ended up in a shelter this winter.

So in Hennepin, we're tackling the foreclosure and housing crisis from every angle we can, but we're still falling short. For every family who gets out of a shelter, there's another family in line to take their place. For every family we work with to prevent foreclosure or find alternative housing, there are new families walking away from their homes because they owe more than their home is worth.

NSP is working to leverage other public and private resources, to stabilize our communities and provide affordable housing, but it's not a model that works well for renters and for households of 30 percent or below the average median income. We're also struggling with NSP dollars in competition with private investors and speculators who put cash down and can move much more quickly to acquire the properties, because they don't have to comply with environmental assessments, appraisals, discounted prices, and inspections. We worry that we'll not be able to meet the September 30th deadline of having all our NSP funds committed.

We are thankful for the new Federal assistance, but Hennepin County and our local governments cannot solve this problem alone. We have stepped up to fill the gaps, to help our neighborhoods impacted by foreclosures and families who have lost their housing. And for Hennepin, responding to the foreclosure crisis, frankly, didn't fit neatly into our organizational structure or mandated services, but we did it anyway. But we don't see the financial sector doing that. It's time for the financial sector to do what the rest of us are doing, step up and help us turn the corner on this crisis. Thank you.

[The prepared statement of Commissioner Dorfman can be found on page 92 of the appendix.]

Chairwoman WATERS. Thank you. The Honorable Dan Bartholomay.

**STATEMENT OF THE HONORABLE DANIEL M. BARTHOLOMAY,
COMMISSIONER, MINNESOTA HOUSING FINANCE AGENCY**

Mr. BARTHOLOMAY. Madam Chairwoman, members of the committee, Representative Ellison, and Representative McCollum, thank you so much for the opportunity to testify today and for holding this hearing in Minnesota. As Commissioner of the Minnesota Housing Finance Agency, the State's affordable housing financial institution, my testimony relates primarily to finance issues. It is Minnesota Housing's mission to advance affordable housing opportunities to low- and moderate-income Minnesotans. And since 1971, Minnesota Housing has invested more than \$8.7 billion and assisted more than 750,000 households.

Every other year, we go through a process to develop an affordable housing plan that describes the Agency's sources and uses of funds. For the 2010–2011 biennium, the Agency will invest about \$1.4 billion of Federal, State, and agency-generated funds to finance new affordable housing opportunities, preserve existing affordable housing, end long-term homelessness, and address foreclosures.

A large portion of Minnesota Housing's resources are dedicated by law to specific purposes. Of the Agency's discretionary budget of about \$180 million, the Agency has specifically allocated 18 percent for addressing foreclosures. Our Agency has used both the State and Federal resources through the Neighborhood Stabilization NSP 1 mortgage revenue bonds and home funds to address foreclosures in the areas with the highest need. Mortgage revenue bonds represent a large portion of the resources available to Minnesota Housing and other State housing finance agencies and local governments. It's important to note that earnings on the loans financed with bond proceeds are used flexibly to create more affordable housing. They constitute 15 percent of our 2010–2011 affordable housing plan and have enabled the Agency to dedicate \$50 million to end long-term homelessness. As a result, a well-functioning bond market has implications well beyond affordable mortgages that the HFAs provide.

The impact of the foreclosure crisis on bond markets is not well-known. Access to bond market capital is critical to financing affordable housing. So turmoil in the market has a significant negative impact on HFAs' ability to meet their missions. Because Minnesota Housing and other HFAs did not participate in the exotic mortgage-making practices, their portfolios have fared significantly better than other lending institutions. Despite this performance, the market did not differentiate between predatory and subprime mortgages and HFA mortgages.

The foreclosure crisis drove bond investors away for two primary reasons. First, the disintegration of the subprime mortgage portfolio was generalized to all mortgages because investors either were not able to differentiate between subprime mortgages and healthy mortgages, or they didn't trust the information that would have enabled them to do so. Thus, housing bonds in general were tainted overall, and some corporate investors went so far as to prohibit the purchase of any housing related bonds, regardless of the credit ratings. Also, declining profits due to mortgage-related losses meant

investors had less money to invest, and yields on housing bonds were higher.

During some portions of late 2008 and early 2009, yields were so high that the debt issuance was infeasible, effectively shutting down lending by public entities. Matters worsened for HFAs once the Federal Government intervened to subsidize the broader housing market by purchasing mortgages at artificially low interest rates without extending the same benefit to public bond issuers, thus the most powerful tool available at housing finance agencies, the tax exemption of the mortgage revenue bond, lost most of its value. As a result, many of the housing finance agencies and virtually all local housing authorities ended their mortgage lending programs. Potential borrowers, our clients and customers whose access to credit was already strained by the broader economic forces, had lost yet another source to support housing.

The recently implemented Treasury/HFA initiative will help restore some lost funding capacity, which will improve earnings potential prospectively as we look ahead. This new one-year program will provide about \$275 million to Minnesota Housing to finance both homeownership and rental housing. Despite this, however, the Agency has and will continue for some time to have fewer funding resources due to two factors related to foreclosures: First, the significantly reduced 2009 lending volume has had a long-term impact on our ability to internally generate flexible revenue to plow back into housing; and second, losses in our existing loan portfolio, due to the declining real estate values of foreclosed loans, impaired our earnings in both 2008 and 2009. Both of these factors reduce our ability to provide housing assistance from internally generated resources, which, as mentioned earlier, are our most flexible resources, and constitute about 15 percent of all of our resources.

So I urge Congress to continue funding foreclosure remediation, but in addition, to look at ways of improving the current NSP resources, which could move houses from the foreclosure inventory to homeownership much more effectively with temporary waivers of statutory requirements regarding processes of the Uniform Relocation Assistance and Real Property Acquisition Policies Act, URA Act, and also the National Environment Policy Act. These changes would permit final purchase offers to be made when acquiring foreclosed properties before completion of an appraisal and environmental review, putting the NSP purchaser on a more equal footing with investors who are not obligated to improve substandard housing or to make homes available to lower-income households.

I also urge Congress to continue providing funding for foreclosure prevention, and Congress should explore new approaches to avoiding foreclosures. Providing relatively short-term financial assistance to homeowners in certain circumstances so they can continue to make loan payments during their economic troubles, may be less costly both to the homeowner, lender, and neighborhood in the long run, rather than foreclosure.

The Tax Credit Exchange Program that permits States to exchange low-income housing tax credits for grants from the Treasury should be extended to permit continued development of low-income housing for families, including those who have lost their homes through foreclosure.

Before closing, I would just like to thank you again, and Congress for the financial support provided to both State agencies but also local governments over the last few years. The Tax Credit Exchange Program and the Tax Credit Assistance Program have both been essential to continuing to support and develop affordable rental housing. The NSP 1 and now 2 are invaluable to turning around foreclosure-impacted neighborhoods. We take pride in our partnerships with the Federal Government, the State government, and with local government, but also the private sector, in providing and preserving affordable housing in Minnesota. Thank you very much. [The prepared statement of Commissioner Bartholomay can be found on page 77 of the appendix.]

Chairwoman WATERS. Thank you very much. I believe the correct pronunciation of the last name of this gentleman, I have missed. It is spelled "S-t-r-e-i-t-z." Would you please tell us the correct pronunciation of your name?

Mr. STREITZ. Madam Chairwoman, it is "Streitz."

Chairwoman WATERS. All right. I knew I was saying it wrong. Mr. Tom Streitz, you are the next witness.

STATEMENT OF THOMAS STREITZ, DIRECTOR, HOUSING POLICY AND DEVELOPMENT, MINNEAPOLIS DEPARTMENT OF COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT

Mr. STREITZ. Madam Chairwoman, Representative Ellison, Representative McCollum, thank you, first of all, so much, and welcome to the great City of Minneapolis. I just want to take a moment to say thank you for your efforts. I am the former deputy executive director of the Minneapolis Public Housing Authority. I spent 7 years working in public housing with this great agency here and Executive Director Cora McCorvey, and I'm well aware of your long record to support the public housing residents, and the work that you all do, I really, really appreciate, so I wanted to say that right out of the gate, so thank you.

I would like to express my appreciation on behalf of the mayor and the council members of the City of Minneapolis and our partners for this opportunity to share our viewpoint and recommendations on the successful implementation of the Neighborhood Stabilization Program. I would also like to thank the Subcommittee on Housing and Community Opportunity for bringing NSP implementation issues forward.

Finally, I would also like to thank the United States Department of Housing and Urban Development, not only for awarding funds to Minneapolis, but for the changes they have made in developing a Neighborhood Stabilization Program in response to our program suggestions to improve the feasibility of carrying out the program in our local housing markets.

The NSP resources that you have provided have proven critical to addressing the foreclosure crisis in our neighborhoods. However, the current allocation is only a first step when looking at the challenges faced by our communities most highly impacted by foreclosures. The stability of these Minneapolis neighborhoods is significantly and uniquely impacted by the high percentage of decline in property values, the level of fraudulent mortgage activity, and the disproportionate effect of foreclosures on people of color.

One notable manifestation of the high level of fraudulent activity in Minneapolis was the investment company known as TJ Waconia which purchased and flipped more than 150 homes in North Minneapolis. The City, with the assistance of the County, was successful in prosecuting the principals who are now in Federal prison. The homes that were—thank you. It's a huge victory. The homes that were a part of this scam have now been recovered and are being rehabilitated and sold to homeowners. It should be noted that low-income neighborhoods in our community have also lost hundreds of millions of dollars of equity, stripped from the neighborhoods.

Residential mortgage foreclosures continued to rise in Minneapolis until 2009, when we have detected a slight downturn in foreclosures. The decreases are partially due to lenders' voluntary moratorium on foreclosures and the increase in foreclosure prevention loan modifications or short sales.

In 2006, 1,610 homes in Minneapolis went to foreclosure sale, over half of them in North Minneapolis. In 2007, 2,895 homes went through foreclosure sale, 54.7 percent of these were in northside wards of the City. In 2008, there were 3,000 foreclosures. Foreclosures, as I mentioned, decreased slightly in 2009, with 1,896 through the end of October. Many of these foreclosures are investor-owned properties that we have heard about from various panel members. Minneapolis neighborhoods hardest hit by foreclosure are in South Central, Northeast, and North Minneapolis, as discussed.

My testimony now will address the following specific issues or questions raised by the committee. The first question asked how the NSP program in Minneapolis is tailored to address the foreclosure crisis in the City. Well, Minneapolis, as mentioned earlier, has some unique strategies that we have put in place, and they are focused on: number one, prevention; number two, reinvestment, purchasing and rehabilitating homes; and number three, repositioning these neighborhoods for market recovery.

Minneapolis received \$14 million in NSP 1 resources and has dedicated an additional \$3 million in non-Federal funding to the Minneapolis Advantage Program to assist low-income households with downpayment and closing cost assistance in the purchase of foreclosed properties. Minneapolis, through a consortium agreement with Hennepin County and the City of Brooklyn Park, was awarded \$19.5 million in NSP 2 resources to be allocated to eligible activities.

With the additional funding, the City of Minneapolis and our community partners, many of whom are here, will be poised and able to purchase and rehab and get back in the hands of homeowners over 700 homes in our hardest-hit neighborhoods.

The City is putting NSP 1 dollars to work. Over 43 percent of the funds that we received in the first round have been obligated. We have nine nonprofit developers that are in the neighborhoods buying homes for closing them, and people are moving into the homes, so I want you to know that we're acting responsibly, we're investing quickly, and the money's being obligated.

In response to question two, Minneapolis has located and been able to purchase REO properties, real estate-owned properties—I didn't know that word 2 years ago, REO, but I have learned it

now—and ensured the participation of banks and other owners of REOs.

As was mentioned earlier, Minneapolis uses two novel concepts in its efforts to purchase REO properties. As has been discussed here today, the major issue confronting many of our neighborhoods are investors coming in from outside of the community with no connections to the community, and we're in a race against cash investors in our City.

And one of the unique things that we have been able to do, working through the First Look Program, part of the National Community Stabilization Trust, we formed something called the Twin Cities Community Land Bank. The First Look Program, in combination with the Land Bank, has been central in our efforts to get our properties out of the hands of banks and back into the hands of homeowners. The Twin Cities Community Land Bank is a public-private venture with a focus on community re-building efforts. The First Look Program is coordinating the transfer of REO properties from financial institutions nationwide to local housing organizations in collaboration with State and local governments. A key component of recovery efforts is to gain control of properties and then manage the disposition and redevelopment of those properties at a scale large enough to build confidence and stimulate investment.

Finally, the third question asked of me was, what challenges are we facing when dealing with NSP 1 and NSP 2? As mentioned earlier, I think there are three areas that we really need to focus on in our future efforts. Number one is, again, a recognition of the fact that we're in competition with investors. As the commissioner pointed out, there are regulations in the NSP program that are very burdensome, and when we're competing against cash investors, we have willing buyers who are told to wait 30 days, we have other requirements, such as the environmental, etc., that are simply making our efforts to purchase these homes extremely challenging. I encourage HUD to look at these regulations and work with communities to make changes.

Finally, I would like to advocate that the definition of eligible properties under NSP 2 be redefined to include short sales. That is the new—the new foreclosure is a short sale. So we have a one-month inventory of foreclosure properties in the City of Minneapolis, Twin Cities area today, and we have a 12-month inventory of short sales. Cities, communities, our partners who are trying to purchase these homes are stymied every step of the way by incoherent recordkeeping at multiple banks, and servicers fighting, and the homes remaining vacant and a nuisance to the adjoining neighbors.

In addition, we recommend some changes to address limited funding. I hope NSP 3 will come forward, and I would encourage whatever future efforts we have, that they be more focused on being upstream. As has been mentioned here today, we have larger issues, and if we can keep families in homes, mortgage foreclosure prevention counseling is key, emergency crisis repair funds to help low-income seniors and other low-income people who are choosing between paying mortgages and their roof or a boiler, employment services to increase household income, and foreclosure-related as-

sistance to stabilize renters in particular who have been very hard hit.

Finally, I commend the subcommittee today for focusing on the impact of foreclosures on low-income renters. In Minneapolis last year, over 50 percent of all foreclosures were rental properties, many of the tenants affected paying their rent and given no notice of the default of the landlord, and many ended up homeless, as described earlier. Finally, I want to thank you again for this opportunity, and I look forward to working with you and stand ready to answer any questions you may have.

[The prepared statement of Mr. Streitz can be found on page 137 of the appendix.]

Chairwoman WATERS. Thank you very, very much. I would like to thank you all for appearing before the subcommittee today, and without objection, your written statements will be made a part of the record.

I would now like to begin our question period. Let me—there's so many things that I would like to discuss, but let me just kind of gear in on these foreclosed properties, these REOs. And since we have HUD here today, I want to talk about FHA a bit. Before I say that—are you getting ready to leave?

Ms. MCCOLLUM. I'm going to have to leave in a few minutes.

Chairwoman WATERS. Well, I have to yield my time to you to raise your questions first before you leave. But let me just say that we are so pleased about HUD. Secretary Donovan is like a breath of fresh air. We have gone through a period of time where we had a Secretary who did not care very much or know very much—that's a bad combination. And so Secretary Donovan is working very closely with us, and I'm very pleased, and I just want to say that. I'm going to yield the first 5 minutes to Ms. McCollum to raise her questions. I know she must depart very soon.

Ms. MCCOLLUM. Madam Chairwoman, that's very generous of you, and I thank you and Congressman Ellison. I'm going to go back and ask a question on something that I mentioned when we were talking together earlier, and that was short sales. And thank you so much for bringing that up. I have been working with Realtors who have been trying to do short sales and paperwork, they think they have it done, time on hold, and they're up against a crunch.

One of our financial institutions here is actually sitting down and working—I had people get together in the room to try to address it, because the financial institution, quite frankly, it wasn't getting up the food chain, for them to know that there was a problem. And so they're also working to address it. Because this is kind of new for them, too, to be involved in this. So if I could just maybe—the only question I would have is, to educate us a little more about your experience with short sales and what we can do. Some of it's not governmentally, some of it's going to be leadership, in getting people at the table to talk. Would you just give us your background on short sales and what you think we can do or should do?

Mr. STREITZ. Madam Chairwoman, Representative McCollum, thank you for that question. Absolutely, short sales are what I call the new foreclosure. And as I mentioned earlier, we have a one-month inventory of foreclosures, 12 months of short sales.

I can give you one example. A home became vacant in North Minneapolis and was caught in the short sale process, and it took 22 months, working with 7 different servicers, banks, to determine even who owned the property, because of confusion with paperwork, etc. Now that may be an extreme example, but I also talk to Realtors, and we meet on a monthly basis with local Realtors, who encounter significant issues of getting the banks to respond. Now there are multiple reasons for that, I believe, and the one is, of course, we have many, many banks, particularly locally, that act as servicers. Wells Fargo, U.S. Bank, Bank of America, are some of the biggest servicers of mortgages. However, as you know, because of the investor-related sale of these mortgages, often determining who the investor buyers are and getting their consent to the short sale is extremely problematic.

I would like to suggest that we engage in what I like to call—we introduced the First Look Program to foreclosures. I think we need something that I'm terming the "Last Look Program" for short sales, and that is to incentivize, as the banks and servicers, like we did with HAMP and our First Look efforts, to sit down with communities and Members of Congress and others, to have an expedited short sale process. I understand that the Obama Administration has proposed something like that, and maybe one of our other panelists from the Department of Housing and Urban Development can talk about it, but I think we do need to sit down with lender partners, we need to pilot a new program that would allow us an expedited access to these properties.

As you know, Congresswoman, the properties sitting vacant attracts crime, it declines further the property values surrounding the properties. So getting banks and servicers to sit down together and, frankly, figure this out, is something that I think we're going to have to encourage very strongly, from Congress, from our regulatory agencies. Otherwise, our communities are going to continue to have negative impacts of foreclosed and, well, frankly, vacant homes.

Ms. MCCOLLUM. Maybe that's something Congressman—while we work congressionally, Congressman Ellison and I can do. Because I do know two of the financial leaders that you mentioned here, both Wells Fargo and U.S. Bank, want to turn this tide around. They have been very receptive. We have been very fortunate with the leadership here with both of those banks. When we sit down and talk to them about something, they're very open to address it. And I see you're nodding your head as well. Maybe sit down with Realtors and some of their folks to look at it. And, Keith, we could do that together while we work on a congressional solution, because many people—I don't think the right people necessarily were aware of what the problem was, with even faxes just sitting because there was so much stuff going on. A dedicated fax machine for short sales might even be a solution in some areas. So thank you, Madam Chairwoman.

Chairwoman WATERS. Thank you very much. I would like to address my question to Ms. Erika Poethig. Pronounce your name for me also.

Ms. POETHIG. "Poethig." You said it wonderfully.

Chairwoman WATERS. Oh, thank you, I got that one right. I'm concerned about the FHA foreclosed properties, the REOs, and not just as relates to FHA, but for the other banks and mortgage companies also. I'm hearing a lot about what is happening and what is not happening with these properties. First of all, before I came here, I heard in Los Angeles about the speculators and the investors who have an edge up, who have the possibility of getting access to these properties in ways that compete with legitimate would-be home buyers, often who are bidding on these properties. And they are not just underbid by the investors, sometimes these properties are going for less than they could be sold for because there's some kind of special relationship between something called the Association of REO Brokers, who have an organization where they get access to these properties, and not everybody can even join the association. They have cut out people from being able to join the association by saying they're limited to only a certain number, which I think may be questionable. It may be something that needs to be looked into.

But with the FHA properties, how are they being disposed of? Do we have the same kind of problems of speculators being able to have access to these properties over others and would-be buyers, etc., etc.?

How are the listings done? That's another problem that I'm told by some of the Realtors in the communities that have been targeted by these institutions that have caused the foreclosures to begin with. But many of the local Realtors who work in these communities don't have access to the listings, because the Association of Real Estate Brokers seem to have the first possibility for this. What is going on with this? Are we entering into another problem with these foreclosed properties by the same people who created the problem to begin with? What is happening here?

Ms. POETHIG. You raised so many important questions, Madam Chairwoman, so let me take the—I think the first one, which is this more global issue of the relationship between HUD homes or FHA foreclosed properties and the NSP program, and tell you what we're doing in relationship to NSP 2. Our office of FHA is mapping our foreclosed properties on to the target areas for the NSP 2 program, to facilitate and help communities target those homes as part of the Neighborhood Stabilization Program. So that's one step we're trying to take to improve the coordination, to ensure that those homes get into the hands of low- and moderate-income buyers.

The other thing that I want to say, addressing your question, is that the HUD homes program and the foreclosed program features a priority period for most sales, where the sales have to go—be available only to purchasers who will occupy the home as their primary residence, or to nonprofits, or the local jurisdiction, who will probably turnkey to an eligible borrower. So we are trying to—

Chairwoman WATERS. Does this include the housing authorities also? Because they're selling to the Section 8s; right?

Mr. STREITZ. That's right.

Ms. POETHIG. To local government? I am not the expert on this. We can get back to you in public record to clarify that point. Estab-

lishing this preference, though, is one way we're trying to mitigate this issue related to speculation.

The other question you raised—and I actually looked into how many foreclosed homes there are in Minneapolis. So there are 40 HUD homes in Minneapolis, 20 are actually under contract to sell right now, and our Office of Single Family Asset Management is really working with a contractor to improve, to your issue the way listings are done. But I can provide in the public record a more detailed description for you about the more national sort of issues and particularly those in your district.

Chairwoman WATERS. Let's just talk about here in Minneapolis. Of those 40 homes, who controls the listings on those?

Ms. POETHIG. We have a contractor who is responsible for the sale of those homes.

Chairwoman WATERS. Who is the contractor?

Ms. POETHIG. I'm sorry, Madam Chairwoman, I don't know the name of the contractor.

Chairwoman WATERS. Probably some of the real estate people know who it is.

Ms. POETHIG. I'm sure, yes.

AUDIENCE. Best Assets.

Ms. POETHIG. Best Assets.

Chairwoman WATERS. Okay, all right. And what is the contractor's responsibility?

Ms. POETHIG. To manage the REO process, to, on behalf of HUD, put forth those properties for sale.

Chairwoman WATERS. So they actually do the upkeep on those properties also?

Ms. POETHIG. (nods affirmatively)

Chairwoman WATERS. And they're also involved in the sale of those properties to individuals who want to buy them or to speculators or investors also?

Ms. POETHIG. Well, we have a priority period, and that priority period is intended to, of course, guard against speculation. However, after that priority period, those properties are available for sale. Because we have to—of course, FHA, as an insurance program, has to try to recover any losses. But we are trying to protect against speculation.

Chairwoman WATERS. Do you feel that your contractor here in the Minneapolis area is carrying out the program in ways that would be consistent with your rules, your laws, about how to do this?

Ms. POETHIG. Madam Chairwoman, I am not the expert on this issue, but our Office of Single Family Asset Management can certainly provide something for the record that speaks to the contractor's capabilities.

Chairwoman WATERS. Is the contractor doing a good job here, audience?

AUDIENCE. No.

Chairwoman WATERS. Okay, thank you so very much.

Ms. POETHIG. You're welcome.

Chairwoman WATERS. Congressman Ellison, please, for as much time as you would like.

Mr. ELLISON. Madam Chairwoman, I love the way you run a meeting, because we get real participation. I'm a little bit embarrassed to ask this question, but I have no pride, so let me just put it out there. How do you think we might improve NSP legislation? What are the barriers to participation for city-owned or State-owned entities that might help us acquire properties that we can then turn around and try to sell? I have been picking up earlier, before today, and also today, that there are certain institutional advantages certain cash investors have over public entities. What are those? And are these advantages in the Federal legislation, are they in local implementation, are they—is it statutory, is it regulatory? Who feels that they could sort of hit that pretty hard?

Ms. DORFMAN. Congressman Ellison, I can start. I think they're in the NSP rules. In order to acquire property in the suburbs, we have to do an environmental assessment, you have to give a 1 percent discount on the price, you have to do an inspection, and there are probably other regulations. And while we're going through that process, the house disappears right under us, to somebody who can just put down the cash, doesn't have to do any of that sort of regulatory work and can walk right in and take it. And that's happening to us in the suburbs and hard-hit cities like Brooklyn Center, Brooklyn Park, Richfield, over and over again, which is slowing down our ability to really use NSP dollars.

Mr. ELLISON. Commissioner, to your knowledge, is this something that the Feds sent down to you? Is it in the statute? Is it in how HUD has promulgated rules?

Mr. BARTHOLOMAY. It's embedded in the statutes, I believe, that govern the process overall that are applied to NSP. So some of these regulations existed pre-NSP, but then NSP has to comply with them. And that's why in my testimony I talked about waivers, short-term waivers for NSP programs. There is more detail in my testimony on that, but that's—the nub of the issue is that potential buyers cannot sign a purchase agreement or make an offer without first having an appraisal and also going through these hoops, if you want to call them, the environmental assessment. And so what happens is that a private investor is able to sign a purchase agreement, go get an appraisal and then do their work, and our partners have to do all the work before they can make an offer. And that essentially makes it really difficult for them to compete with the private sector.

Mr. ELLISON. In your testimony, which I did read last night but apparently not thoroughly enough, do you lay out how we can put the NSP buyer on equal footing with the private cash investor?

Mr. BARTHOLOMAY. Not in detail, but we could certainly put something together that would allow us to lay that out in a much more thorough and detailed way.

Mr. ELLISON. If we were to be able to put folks on equal footing—NSP buyers on equal footing with the private—and it's the cash investor, it's the person who doesn't need to worry about a bank loan; am I right about that?

Mr. BARTHOLOMAY. I think it's the cash investor, but it may actually relate to other investors as well who would get a loan; right? Maybe you know more about that detail, but—

Mr. ELLISON. Let me ask this one question. This is a congressional hearing. If we could get the NSP buyer on equal footing, what kind of a difference would that make?

Mr. BARTHOLOMAY. I would say it would make a huge difference on a couple of fronts. One is, they would be able to buy properties that were in better condition, so they wouldn't have to buy the worst of the worst. They are going to get the better properties. And the money and the properties are going to move faster.

Mr. ELLISON. Okay. Mr. Streitz, do you want to elaborate on that?

Mr. STREITZ. Yes. Congressman Ellison, I think this is exactly getting to the issue that's very much a phenomenon in the City of Minneapolis and Los Angeles as well, and that is the cash investor. I can give you numerous examples, and I'll submit additional testimony with the examples, if you would like, where we have had a buyer who wants to invest in the neighborhood, live in the home, and we were told by the selling agent, no, we're not going to accept your offer because we have a cash investor, you don't have to go through the environmental, we don't want to wait for the FHA approval of the loan, which was a big, big issue, so you wait 30 days, and the people say, I'm going to take the cash. And that happens repeatedly.

I think the default under the statute, Congressman, is that it adheres to CDBG regulations. And so—and I see our HUD representative here shaking her head. CDBG are the default regulations under the NSP program, and therein lies the problem, of the environmental and—I see Alfred shaking your head. Thank you, Alfred, because if I'm getting this wrong, tell me. He's our guy on the ground. But those are the main issues we're facing. And when you're in a climate where every house is being bid on, and you have a buyer—once again, I'll submit additional testimony—who is looking to invest in the neighborhood, live there with their children, be a neighbor, and they have multiple hoops to jump through, the environmental, the historic preservation, the waiting period for FHA, and then you have a guy standing there from outside the community, typically a lot of them are working with REO agents who have hundreds of listings, and they come and they offer cash, and the seller takes the cash.

Mr. ELLISON. Can you all help get us a little bit more up to speed on the problem here? It seems to me that we could—if it's a Federal statutory issue, we might be able to really weigh in on that front. Would you all mind putting some things together?

Mr. STREITZ. We would be happy to.

Mr. ELLISON. That's a good one. The other thing is—

Mr. STREITZ. And, Congressman, could I just make one more point on that?

Mr. ELLISON. Sure.

Mr. STREITZ. And then the result is, when there's a cash investor—not all investors are bad, but most of them are from outside the community, they don't live here, and the difference is this: The home becomes, in many cases, very minorly repaired. I call it the caulk-and-paint job, unlike NSP. In NSP, our developers, our nonprofits and for-profits, we require them to meet green community standards.

So here's the difference. A family walks into a home with a new roof, new windows, essentially a new boiler. They're going to save thousands of dollars in utilities. They have gone through foreclosure prevention counseling. They're working with a counselor actively. So we're creating sustainable homeownership. Compare that with the outside investor who buys a home in cash, does the paint-and-caulk job, moves a family in, often without adequate ventilation or heating, and mold in the basement, we see that repeatedly, and then when things go wrong, you call them, and that person lives in Florida or North Dakota or South Dakota. We have people in North Minneapolis sending rent to Puerto Rico, for example. So when problems occur with the property, and the neighbors try to contact someone, there's no one to be contacted, because they have no connection to the community.

Thank you for indulging me. I just wanted to share the difference and what happens to the community in one circumstance versus the other.

Mr. ELLISON. And my thought is, all these things that NSP regulations seem to require are good. Of course, we want some kind of environmental assessment; of course, we want to make sure these things are done. But if these requirements are essentially disadvantaging that NSP buyer, then what we're doing is we're defeating our own purpose. We're like the dog chasing his own tail. And I think we have to find a way to preserve those considerations without—but still be able to operate with the kind of speed that we need and get through that red tape. So that would be a great thing, if we can work on that, and I appreciate any input you have, and so, good. I knew something good was going to come out of this hearing.

Ms. DORFMAN. And, Congressman, those dollars have to be committed by September of this year, and that causes a crunch.

Mr. ELLISON. Right. Well, I was going to go to you next, Commissioner. Commissioner, you're actually the next on my list of questions. Because if we're having trouble meeting our September deadline, September 30th, can you tell me, are you getting the kind of technical assistance from HUD that you think that you need? And what more can be done in Hennepin County?

Ms. DORFMAN. Congressman, thank you, that's not the problem. The problem is, we're having trouble acquiring homes. We're doing a really good job of identifying families who are ready to move into homes, and giving them the downpayment assistance through NSP. We have done over 100 already that we're processing. But the actual acquisition and rehab, that's where we're slowing down. It's just tougher to get those properties. And so we'll have to turn back any money that we don't spend, if it's not committed.

Mr. ELLISON. Can you guys talk about what we're going to do to make sure we don't have to turn back money?

Ms. DORFMAN. Well, we are scrambling.

Mr. ELLISON. Right. But what can we do, perhaps, to help you? Extend it? Extend the deadline?

Ms. DORFMAN. Extending the deadline would help. It's tougher in the suburbs. The average acquisition price is considerably higher than in North Minneapolis or in the City. It makes it tougher.

Mr. ELLISON. Okay. All right, good. If there's anything else you think of—extending's a good one. Anything else, Tom, you want to—

Mr. STREITZ. Congressman, can I mention one other thing, since I see you making a list over there? I appreciate that. The discount requirement is a very large impediment. When you have cash investors who are willing to pay more than the discounted price, the seller's not going to sell to you. And so that is a major issue for us as well. So if we—since we're taking notes here, I would be hopeful that we could address that issue as well, the discount requirement. Because we're simply not seeing discounts in an environment where you have multiple investors and purchasers willing to buy the home.

Mr. ELLISON. All right, good. Another question for the Commissioner of our State Housing Finance Agency. The housing finance system is something that the Financial Services Committee has identified as a priority in this upcoming year. Can you expand on what types of policy changes would be most beneficial to Minnesota with regard to housing finance?

Mr. BARTHOLOMAY. Well, there has been a lot of work done this last year, year-and-a-half, to put some pieces in place that made a big difference for us and agencies like ours to be able to finance affordable housing in this market. Ultimately, the market is going to have to change, for things to progress. But we do think some of the recommendations or things that I was urging you to consider, extending the Tax Credit Exchange program, will—provided the economy continues to be like it is, and it doesn't seem like it's moving as fast, the recovery, as anybody would hope, that's going to be very important.

I could certainly follow up with additional information for you on that too. My policy director is an expert in that area, and I could have her put together a list. We did submit a list to HUD of some ideas. I'm not sure that we shared that with you, but we could certainly do that.

Mr. ELLISON. We would appreciate that, thank you. Representative Davnie, I was interested to hear about your bill. As you know, you and I have talked about it before, and I thought it was a great bill, and I mean now the Minnesota Subprime Borrower Relief Act, which would have required lenders to make a good-faith effort to restructure mortgages before foreclosure.

I'm working on a similar bill, H.R. 3451, which I introduced last year, which would require the lender, upon default of a federally-related mortgage loan, to engage in loss mitigation activities that provide for: one, long-term affordability of the loan; and two, maximum retention of home equity. The bill I have in mind, I hope to move forward in the coming year. Could you tell me, from your perspective, what's needed to move forward on mortgage servicer reform?

Mr. DAVNIE. Madam Chairwoman, Representative Ellison, thank you for the opportunity. I think you know, through your conversations in the community, Congressman, the frustration experienced by many homeowners who are in trouble and foreclosure prevention counselors in engaging the financial institutions who hold the loans on modifying those loans. In my real life, I work for one of

the major social service agencies in the State, and have frequent contact with some of the housing counselors there, and repeatedly get stories of the difficulty, first, of identifying, as has been identified here, who is the lender? They may be able to identify who the servicer is, but who is the lender? And then the issue we come to of the secondary market and the securitization of mortgage loans making identifying who gets to make the decision on modifying the loan more and more difficult.

Any efforts that could be done to simply bring the transparency that's needed to the process, from the Federal level, would be a great help, I think, to those both as borrowers and to the folks who are trying to assist them in that.

The work that you have done on looking to create a Federal system of consumer protection, I think, where we can get on the front end of assisting homeowners, as I spoke to in my earlier testimony, so that when they make the commitment to homeownership, they are assured that the product that they're using to get there for them and their family and their community is a stable product that will allow them to continue in homeownership, is critical as well.

Mr. ELLISON. And this question is both for you and Senator Higgins. I know that you all were working on mandatory mediation programs in the last session, which I was really excited about. But we're not the only State looking at a mandatory mediation program. I think in Pennsylvania, Connecticut, and Florida, they were looking at these programs. Can either one of you talk about the mediation bill that you all worked on? And please explain why, if you can, the governor vetoed the bill—Governor Pawlenty vetoed the bill.

Ms. HIGGINS. Madam Chairwoman, Representative Ellison, I can't say it kindly, so I won't say it at all. I'm probably—were you the author of that bill?

Mr. DAVNIE. No, Representative Hillstrom.

Ms. HIGGINS. Oh, okay. So you have two people here who were not authors of the mediation bill, so we probably don't have the detail that we should have. But it would have set out a process where there would have been a 6-month, 7-month period where mediation would have been required. It was a serious and honest attempt to get the lender to the table, which is something that we heard and continue to hear from one and all, that is the piece that we just can't get compliance on, is getting the lender to the table to have an honest discussion on how a mortgage can be restructured, how both parties can win in going forward.

Mr. ELLISON. I'm all done with my questions, Madam Chairwoman, so I yield back.

Chairwoman WATERS. Thank you very much. I'm very appreciative for the presentations that have been made by this panel, and the Chair notes that some members may have additional questions for this panel, which they may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses in the record. Thank you very much, panel, for your very informative presentation. The panel is now dismissed.

Ladies and gentlemen, I'm pleased to welcome our distinguished second panel. We're going to move forward with our second panel. Please take your seats. We have a lot of good information for you.

Our first witness will be Ms. Cora McCorvey, executive director, Minneapolis Public Housing Authority.

Our second witness will be Mr. Chip Halbach, executive director, Minneapolis Housing Partnership.

Our third witness will be Mr. Michael Dahl, public policy director, HOME Line.

Our fourth witness will be Mr. Mark Ireland, staff attorney, Housing Preservation Project.

Our fifth witness will be Mr. Richard Amos, director of housing services, St. Stephen's Human Services.

Our sixth witness will be Mr. Marion Anderson, constituent, and renter displaced by the foreclosure crisis.

And our seventh witness will be Ms. Christina Loudon, constituent, and Section 8 voucher resident.

Without objection, your written statements will be made a part of the record, and each of you will now be recognized for a 5-minute summary of your testimony. We will begin with our first witness.

**STATEMENT OF CORA A. MCCORVEY, EXECUTIVE DIRECTOR/
CHIEF EXECUTIVE OFFICER, MINNEAPOLIS PUBLIC HOUSING AUTHORITY**

Ms. MCCORVEY. Chairwoman Waters, Representative Ellison, I am Cora McCorvey, the executive director of the largest Public Housing Authority in the State of Minnesota, with over 6,000 units of public housing and 5,000 housing choice vouchers. I am honored to be here on behalf of the Minneapolis Board of Commissioners, our staff, and over 21,000 residents and housing choice voucher participants.

I welcome you, Madam Chairwoman, to Minneapolis. I am personally delighted you have decided to visit our great City today, as you are one of my role models. I proudly watched you on television over the years, regimenting comments in the newspapers, and know you have spent over 30 years of your life being a fierce and tenacious advocate for women, children, people of color, and for the most vulnerable among us. I applaud you, Chairwoman Waters, along with thanking you for your leadership, courage, and service to humanity.

Chairwoman WATERS. Thank you, thank you, thank you.

Ms. MCCORVEY. Representative Ellison, I have worked with you on many important issues during your career, and I am grateful for your steadfast support of affordable housing programs. I want to talk a little bit this afternoon about some of the need. The Public Housing Authority is a bastion of safe, decent and affordable housing for our community. This resource, while critical, is woefully inadequate, when measured against the need that we see. A family waiting list has been closed since 2007, and we have almost 3,000 people on that waiting list now, as I speak. And Chairwoman Waters mentioned that there are 12,000 people on the Section 8 waiting list. There were 15,000 who actually asked for applications, and, yes, there are 12,000 who are on the waiting list today.

At our central office headquarters, we have a resource room where people can come in off the street or just call and request information. We have 900 contacts each and every month. That's nearly 12,000 people, desperate people, in need of housing who contact us that we can't serve.

The Public Housing Authority turns away literally thousands of people each year because there are no vacancies in our operations, either our public housing programs or our Section 8 programs. Those programs were often a step up and out of homelessness and out of transitional housing. We literally have no room. Families are forced to choose between food and shelter, shelter and medicine, medicine and school needs for their children. Wilder Research estimates that on any given night in the metropolitan area, there are 4,700 people who are homeless. And of those 4,700, 45 percent of those are children.

The Public Housing Authority is working hard and is committed to respond to these needs as best that we can. We have established seven assisted living and housing with services and programs for our elderly. These supports help our seniors to live more independently and remain in their homes longer. We have worked with our partners in the community to develop two women's shelters, a youth shelter, a transitional housing program for chemically dependent women that is funded through a program called Publically Owned and Transitional Housing (POTH). This is funded by the State of Minnesota.

We have two self-sufficiency programs, one through our public housing programs and one through our Section 8 program. We have pursued very aggressively and won nearly \$32 million of ARRA funds, that's American Recovery and Reinvestment Act funds. With these funds, we are developing a senior center on the north side of Minneapolis in our Heritage Park development and a 48-unit memory care development. We believe this is the first in the country where public—it's a public housing development we're envisioning we will develop, providing comprehensive support for vulnerable elderly who have Alzheimer's or suffer from forms of dementia.

We're investing \$12 million in significant injury improvements in our over 700 scattered site family units. We have obligated 96 percent of the \$18.2 million of capital ARRA funds that we received last year. With those funds, we believe that we will be creating nearly 300 jobs in our community.

We have entered into a second energy performance contract, this is with a new provider, Honeywell International, which is going to upgrade our energy infrastructure. And we have structured this deal so that Honeywell guarantees a savings that will be enough to pay for the cost of the improvements that are going to be made in our facilities.

We are responding in small but we think very important ways to the foreclosure crisis. We have created a Section 8 foreclosure prevention demonstration program, and it's called Saving Homes, for families in North Minneapolis who are under threat of foreclosure. The same prevention strategy is available to the 185 families who have previously purchased homes through the Public Housing Authority's homeownership programs.

We have partnered with the City of Minneapolis and a nonprofit agency to project base some of our Section 8 vouchers in foreclosed properties. These properties are being purchased and they're going to be rehabbed and made affordable for low-income families.

We have used ARRA dollars to purchase 20 foreclosed townhomes in North Minneapolis, and those townhomes will be created for a rent-to-own program for low-income families.

The Public Housing Authority has many strategies to respond to these needs, but we don't have the resources to do so. Madam Chairwoman, thank you so much for the opportunity.

[The prepared statement of Ms. McCorvey can be found on page 115 of the appendix.]

Chairwoman WATERS. Thank you so much. Our second witness will be Mr. Chip Halbach.

**STATEMENT OF CHIP HALBACH, EXECUTIVE DIRECTOR,
MINNESOTA HOUSING PARTNERSHIP**

Mr. HALBACH. Thank you, Chairwoman Waters, and Representative Ellison. Thank you both for the emphasis of today's hearing on rental housing. As was said by the HUD speaker, there is a need for more balanced housing policy in this country. I'm going to speak about the urgency for providing affordable rental housing for the lowest-income residents, and I'm going to put it in the context of the economic problems this country is facing. Certainly, there has been a recent substantial downturn in the economy, but for many low-income households, this economic challenge has been around for at least 30 years.

So with Minnesota, we have now 7.4 percent unemployment. And an equal number of households, percentagewise, are also underemployed and have faced job losses or partial job losses. That's over 200,000 people in this State. And that economic challenge facing the State has manifested across the housing continuum.

For instance, for the homeownership we have seen over the last 2 years—or since 2005, that is, a default rate, people 60-plus days in default, that has gone from under 2 percent to just about 8 percent; 8 percent of people with mortgages in this State now are 60 days behind in their mortgage payment. And while there have been reforms that have been discussed earlier, that trend is continuing upward.

With rental housing, we have, of course, the cost burden placed on many low-income families. But one of the things that we have been able to observe, in partnership with nonprofit developers across the State, is that many of the households that are in affordable housing now are falling behind. In fact, it's about 23 percent of the residents of the 3 largest nonprofit affordable housing developers in the State are now at least 1 month behind in their rent payment. We have an economic situation where our policies and programs have helped a lot, but they're still not reaching people, particularly as the job losses continue.

And, of course, there's homelessness, which is the trend, which is the ultimate of people not being able to afford housing. Looking at family homelessness in Hennepin County, where we have the best records, over the last 3 years, there has been a 70 percent increase in family homelessness here in Hennepin County.

Focusing more on renters, what we have here is that about 1 in 5 renter households across the State are paying more than 50 percent of their income for housing. And that is particularly burdensome on those who are called extremely low-income, those with incomes at 30 percent of median and below. That is about \$21,000 or less in annual income for a family of four. In the State, we have 85,000 households who are in that situation, who earn \$21,000 or less and are paying over half of their income for housing. That's a number that continues to increase. And as I said before, this is a long-term trend.

Since 1980, rents across the State have increased by 19 percent, while at the same time, renter incomes have declined 10 percent. We need help for people now in being able to afford rental housing, but also we need to be able to prepare for our expanding population, and more low-income people, we expect, will be residing in Minnesota. For instance, the Metropolitan Council projected, for this decade we're just beginning, we need about 5,100 affordable housing units per year added to the stock, whereas our current ability to provide affordable housing is about 1,000 units per year.

Where do we go from here? Well, of course, our primary need is to be able to transcend that gap between what it costs to create and maintain housing, and what people can afford.

NSP, which has been talked about here, is a great program and extremely important. However, it is not a good program for helping people at the bottom end of the income spectrum.

There are four areas where we need help. I'll just list them quickly. The Low Income Housing Tax Credit, which has been mentioned, our State uses that tax credit program, not only for the \$700 to \$1,000 apartments, but also for chronic homeless, extremely low-income. The tax credit needs to be preserved.

The National Housing Trust Fund, which if we get—that has been authorized in the Housing and Economic Recovery Act, and we're hoping to get it capitalized. We're looking at a billion dollars. The two of you have been leaders in doing that, seeking that fund. The two of you have been leaders in seeking that fund. But a billion dollars will only bring 140 units to Minnesota.

And then vouchers, SEVRA, and then preserving existing affordable housing, including public housing, where the economic stimulus has been able to provide important resources but less than 20 percent of the resources needed for Minnesota's public housing backlog and needed repairs. Thank you.

[The prepared statement of Mr. Halbach can be found on page 95 of the appendix.]

Chairwoman WATERS. Thank you very much. Our next witness is Mr. Michael Dahl.

**STATEMENT OF MICHAEL DAHL, PUBLIC POLICY DIRECTOR,
HOME LINE**

Mr. DAHL. Madam Chairwoman, it is an amazing honor to meet with you, and, Congressman Ellison, you have been an unparalleled leader on affordable housing, and I'm thankful that you are having this hearing. Thank you for the opportunity to testify. My name is Michael Dahl, and I'm the public policy director with HOME Line. HOME Line is a statewide organization that provides

free legal, organizing, education, and advocacy advice to tenants, so they can solve their own problems, and we work on public and private policies that advance that goal.

As a part of our work, we operate a statewide tenant hotline. The hotline provides renters with legal advice. And it has grown from suburban Hennepin County in 1992 to serving the whole State except for Minneapolis, which has its own tenant and city-funded service. Last year, we took 11,000 calls, setting an unfortunate record for the number of tenants who are seeking our advice in troubles with their landlord or help in affording their rent.

As you would expect in today's market, the number of tenants calling us because of foreclosure has increased. It has gone way up. In 2000, we received 18 calls from all of Minnesota from renters who had a question about foreclosure. This year, the number was at 1,265. We're seeing a dramatic increase, and that increase is seen in Congressional District 5 as well. Last year, we received 273 calls from tenants in Congressman Ellison's district. That's a four-fold increase in just the past 3 years.

So obviously we are very happy, Congressman Ellison, that you took a leadership role on this and got the Protecting Tenants at Foreclosure Act passed. Since that legislation went into effect, HOME Line's work has changed in two ways. One, tenants have more time to move, which this is something that's—prior to the change, a bank only needed to give someone 60 days, now they have 90 days. And that extra time gives them time to save up for a move, and not choose just the first place that comes available, but, instead, the place that works for them.

Next, holding owners to the tenant's lease is a good change as well. When a property is transferred normally, the new owner steps into the shoes of the old owner, and the new owner must respect the tenant's lease. That had not been the case in foreclosures. And making one rule that applies throughout the market is a good one.

The increased call volume for foreclosures is one that shows no sign of abating. And so we ask that one of the first things you can do is make the Protecting Tenants at Foreclosure Act permanent. Its sunset in 2012 is something we would think—we need to extend this forever. It's a good idea—it was a good idea before, it's a good idea now, and I think that in 2012, we'll be seeing that it continues to be an issue that we need to address.

More, however, needs to be done in this for extremely low-income households. And I'll leave NSP to Mark Ireland's testimony, to talk about that. I just want to focus on some of the issues that Chip had tried to bring up towards the end of his testimony that we agree with.

America's affordable housing crisis predates the foreclosure crisis. And we have people who were on the Section 8 waiting list in 2005. They still haven't gotten to the top of the list. And that's before all of this foreclosure thing sort of hit the media screens and became the thing that we're all talking about.

There are two things that we need to do, basically, to address the crisis that we're in: We need to increase the supply of affordable housing; and we need to make more rental assistance available.

In the 5th Congressional District, if someone needs help right now, all of the waiting lists that they could be on are closed. Min-

neapolis, Richfield, St. Louis Park, Metro HRA, all the lists are closed. And if you manage to be lucky enough to need help the day that a list opens, maybe you'll get on the list, and 17,000 people will be ahead of you on all of the lists that are out there. So we need to do something to increase the stock and the availability of rental assistance.

Chip had talked about the need for our Nation to recommit to a production program, and that's why Congress needs to pass significant funding for the National Housing Trust Fund. There are two steps that can be taken for this. One, the United States Senate needs to put, like the House did, \$1 billion into the National Housing Trust Fund through the jobs bill, and that's something that can happen in short order. The next step, and this is an area where we're happy for leadership from Senator Franken, is asking for the President to include another \$1 billion for the Trust Fund in his annual budget.

But these two steps are just partial steps, because we need \$5 billion annually for each of the next 10 years. And so we—that's one request that we have, is to find a way to provide permanent funding, at least for the next 10 years, to the National Housing Trust Fund.

And then lastly, we need more money for vouchers. Nothing will reduce the waiting list better than providing more money for vouchers. And housing vouchers—it was already stated that we have thousands of people who are waiting for help. There are 230,000 renter households who cannot afford where they live. Chip talked about the 85,000 who are extremely low-income and are paying more than 50 percent of their income. Congress needs to make the HUD budget reflect the number of eligible people who need a voucher.

Madam Chairwoman, Congressman Ellison, we will stand with you and provide whatever you need to reach these goals. We know that you have the vision to make them happen, and we're there with you.

[The prepared statement of Mr. Dahl can be found on page 83 of the appendix.]

Chairwoman WATERS. Thank you. Thank you very much. Now, we will hear from Mr. Ireland.

STATEMENT OF MARK IRELAND, STAFF ATTORNEY, HOUSING PRESERVATION PROJECT

Mr. IRELAND. Thank you, Chairwoman Waters, and Congressman Ellison. Thank you for inviting the Housing Preservation Project to come here and testify today.

You can really break down the proposals and the ideas into two broad categories. One is opportunity, and one is need, and they certainly overlap. But I think the first is that we have an opportunity here. It is a financially smart move to invest in rental property, to expand our voucher programs, to expand the availability of affordable housing tax credits.

All of these programs, now is the time that we can do that. And we have a lot of community development agencies, nonprofits, that want to do that, but they need access to capital, they need access to funding, to do it. We have the potential today to access houses

and bring multifamily units, single-family units, into these affordable housing programs in areas that are close to jobs, close to transit corridors and other areas where people want to live, and where you come and you raise that standard of living for people who are renting property in Minnesota and the country. So this is an opportunity. It's financially a good move.

The second, and this was touched upon a little bit by the first panel, is that by expanding these programs, we're going to create standards and oversight. And sometimes standards and oversights are a little bit too much and they impair the ability to expand these programs and make them work. But we have right now that competition between speculators and the nonprofit affordable housing organizations. And we found that 81 percent of the foreclosed properties in the City of Minneapolis had 911 calls. The median—and these were properties that were foreclosed upon 3 years ago. The median number of 911 calls related to that property was five, and the average was eight. So by bringing these properties into the Federal programs and putting them in the hands of responsible owners, responsible lenders, we're going to increase the standards—the standard of living for our renters, we're going to—and we're also going to help strengthen those neighborhoods.

The fourth is—or the other opportunity and need is to subsidize scattered site rental. Our community development corporations, our Public Housing Authority, they have experience. And that experience has taught them that it is time consuming, it's expensive, but the opportunity, what it provides for the renter, far outweighs that, but we need that need. We need the management of scattered site housing to be subsidized in a greater degree by Congress, and Congress could provide that. So we meet up that opportunity and that need, and we access that.

And then the final is to loosen some of the restrictions on NSP, and we talked about that in the first panel.

And lastly, it's an issue that hasn't been raised by any of the panelists, but I think it relates both to where we are and where we're going, and that's the issue of race. Nobody seems to really talk about it all that much, but in every study that I have seen and every article that I have seen, the disproportionate impact of the economic crisis, the foreclosure crisis, on renters, on homeowners, has been on communities of color and people of color. And so, therefore, as we develop these programs for scattered site rental housing, expanding vouchers, expanding tax credits, we have to talk about race, and we have to talk about those issues and see it as an opportunity to have a conversation that's long overdue about race, both in Minnesota and the Midwest and then in our country. Thank you.

[The prepared statement of Mr. Ireland can be found on page 106 of the appendix.]

Chairwoman WATERS. Thank you very much. Next, we will have Mr. Richard Amos.

**STATEMENT OF RICHARD AMOS, DIRECTOR OF HOUSING
SERVICES, ST. STEPHEN'S HUMAN SERVICES, INC.**

Mr. AMOS. Thank you, Chairwoman Maxine Waters, and Congressman Keith Ellison. Thank you very much for giving me the opportunity to share what we're seeing at St. Stephen's.

The mission of St. Stephen's is to end homelessness through effective collaborations and programs, and we do that by serving over 6,000 people, and we serve them with street outreach, shelter opportunity, transitional housing, employment services, support services, shelter, a free store, and multiple programs that we believe people need. Because you can give people a job or you can help people fill out resumes, but the populations we work with never really had a job or an opportunity of employment, so they wouldn't have anything to put on a resume.

Looking at the foreclosure crisis, we're seeing people who have never called before for services. They are working class people, and they kind of get embarrassed and intimidated when we ask them questions about their personal lives. We're seeing people who were in shelters because they had their houses foreclosed upon, and then when we locate them housing, they go into that housing, only to find out that house was in foreclosure, and we have to rehouse them again.

We're working with a variety of people, families and single adults, some have mental health issues, some have addiction issues, some have multiple barriers that prevent them from obtaining housing on their own. So we have a program that's called Rapid Exit. The Rapid Exit Program is funded by Hennepin County through money that passes through the State.

One bout of homelessness costs about \$5,000. We can save someone from being homeless for \$1,000. Now that makes economic sense. An adult without children, it costs about \$850 to prevent them from being homeless. But if we pay for them to be in a shelter or to go in and out of emergency rooms, because all they can use is emergency services because they're homeless, then it costs about \$2,000. So when we look at the economic issues, we can actually save money by keeping people out of shelters and not being homeless.

The Hennepin County Homeless Prevention Program helped nearly 2,000 people, families, and 477 adults between 2007 and 2008—95 percent of those families and 90 percent of the single adults were stable in their house for about 6 months. And it costs—when we look at the costs, again, \$875 for family, \$610 for an adult without children, that's a cost savings we look at. And those are our tax dollars.

Between 2007 and 2008, the Hennepin County Rapid Exit Program prevented people from being homeless. When we look at prevention, we look at saving people from being homeless. Don't wait until they get homeless, because it costs a whole lot more, once they're homeless, to get them back into housing in order to get them back on track. Some people assimilate in the homeless culture, and it's a climate and it's hard for them to get out of. So we don't want to wait until they have assimilated in and they're used to being homeless. Then it's harder to get them back on track and out of that.

We have prevention programs, where people can call in who are in a rental crisis. Maybe they have lost their job, they have broken an arm. We say, when you're poor, you can't get sick. Because if you get sick and you miss 2 days at work, there goes your rent money, and you may be homeless again.

So we have prevention assistance funds, where we can pay a portion of the rent and help them stay on track and in that housing until they get past that crisis, whether it was a broken arm, whether it was a child sick and they missed a couple days at work and they can't pay their rent.

There are a whole lot of issues that contribute towards people becoming homeless. I haven't met anybody who volunteered to be homeless or who would volunteer to be homeless. So we need to think about this when we're thinking about addressing homelessness. It's not just those people over there. I was homeless in my life for 20 years, and people wouldn't look at me, they would look around me, they would look down, because they were afraid I would ask them for something. And sometimes I wanted to ask them for something, but I knew they wouldn't give it, because they already had their minds made up.

So homelessness, we look at it at St. Stephen's as a way to reach out and grab a person's dignity, to talk to people and embrace them. Because if you're not going to reach out and embrace someone's dignity, then you might as well not talk to them in the first place. We have all kinds of programs, and they try to address homelessness. But if you don't have that compassion and you don't reach for their dignity and you don't believe that they can make it in the first place, they won't.

I sit down at work sometimes and I help people go through the newspaper and look for housing, and I want them to call landlords and talk to them, after I have talked to them and they know how to do it, because I want to teach them to fish, rather than give them fish every day.

And I hate to say it like this, but I'm going to say it anyway. Sometimes we can create plantations for the homeless. And I say that because we have mastered trying to show people which way to go, when you can teach them how to go and they can go for themselves, rather than create an industry called homeless providers and keep on serving the populations, and that population just keeps on growing.

So we look to the Federal Government to create some subsidized housing, to create some short-term subsidies, not just long-term subsidies like Section 8. And I know that may not be politically correct, but what about short-term subsidies, people who need help for 2 or 3 years, until they can get an education or a skill or something that will help them sustain their housing, rather than just all Section 8s, which are for a lifetime and people just kind of never go off. I think we need both short term and long term. And with that, I will stop.

[The prepared statement of Mr. Amos can be found on page 52 of the appendix.]

Chairwoman WATERS. Thank you very much. Next, we have Mr. Marion Anderson.

**STATEMENT OF MARION ANDERSON, CONSTITUENT, AND
RENTER DISPLACED BY FORECLOSURE CRISIS**

Mr. ANDERSON. Thank you. I hope you'll bear with me, I'm not used to public speaking at all. Thank you, Madam Chairwoman, and members of the subcommittee, for inviting me to testify about my experience as a renter affected by foreclosure. My name is Marion Anderson, and for over a year my life has been affected by the foreclosure of my rental unit.

Just to give you a little history, it was exactly a year ago, I had just gotten—6 months prior to that, I had gotten a job with a multinational company locally, 3M. I was a machine operator, and I had just bought a car with no notes, paid off in full. Life was looking good. I signed a lease for \$900 a month. I said, I can do this now.

Well, in November 2008, I signed a one-year lease on a two-bedroom apartment in a fourplex in North Minneapolis. What I didn't know at the time was that my landlord was already in the early stages of foreclosure. In fact, my landlord had two mortgages on the property, and both had gone into foreclosure. Okay, then, one of the sheriff's sales was in August 2009, and the other was in September 2009. In addition, my landlord had filed for bankruptcy.

Our first suspicion that something was wrong, as far as the tenants went, was about 4 months into our lease. In February 2009, our landlord started taking appliances out of the property without any explanation. The first things to go were the washer and dryer in the basement. About that time, we got really concerned.

The next month, we started getting utility shut-off notices at our building. In our original lease, the utilities were paid for by the landlord, which was—\$900 a month, no utilities, I can make it.

The next month, April, the building was posted by the City for a lack of utilities, but the landlord was still asking for rent and not addressing the utility issues. So myself and my roommate, we organized, contacted the utility companies, and agreed to pay the utilities at the unit, all—it was a fourplex, so each tenant was supposed to pay their portion of the water bill, the heating bill, whatever.

As it worked out, on April 15th, our landlord came by the property and manually turned off the furnace. From April to July, we had no contact from our landlord. In July, our landlord showed up at the property and threatened us with evictions for nonpayment of rent. Well, at this point we knew, okay, as long as we paid our utilities, she really couldn't hold us accountable for the rent, as long as we kept a record, etc., etc.

At this point, we were no longer paying rent, but we were paying the utilities ourselves. We had already received numerous water and gas shut-off notices. She continued to strip the basement of appliances and never showed up again. One of the words I became familiar with was "abandonment," I got that notice in the mail. I wasn't quite sure what that was, but it was addressed to my landlord, that she had abandoned the property completely, and wanted nothing else to do with it.

So right about this time—well, actually we weren't doing too badly. We didn't have to pay rent; we just had to pay utilities. I was unemployed. And so, you know, I'm a "cup-is-half-full" kind of guy. I'm looking—I can see the future a little bit.

And, well, right about—in the fall, mostly—right around October, really. It says here in August, but right around October is when they had the shut-off notices and turn-off notices for utilities, especially because of the weather. If you're not from Minnesota, October 15th is about the time it starts getting cold, and the furnaces go on.

And so the fire inspector showed up at our property and put up two notices on the door. A really nice lady, her name is Melanie—I can't say her last name, it's Polish, but she's really, really good help; right? I tell you, she was really—she had a lot of empathy. She worked the north side, nice uniform and everything. She posted these psychedelic posters on our doors saying you had 72 hours to either get that furnace turned on or the building would be condemned. And we had from that time until January 1st to have a new rental license for that property. Evidently our landlord hadn't renewed our old license in August.

So by this time, it's, like, fall, October. So we say, well—I had been a little depressed before, but I got a little hint of—with 72 hours, I had a little hint of what clinical depression really was. But like I said, she was really empathetic, told me they were changing some of the laws and some of the rules as far as what they did for condemnations. And we were able to get the furnace turned back on with help from their contacts with CenterPoint, with, I'm saying, the fire department, Legal Aid.

A woman in particular, Genevieve Gaboriault from Minneapolis Legal Aid, she was on it from the minute I called her. These are resources I really wasn't aware I was eligible for. So she contacted them. They made an agreement with CenterPoint. We got the furnace turned on by that Saturday. We could still stay in the building. That means all the tenants who were still in there could still stay there. I'll hurry up.

And Legal Aid also—Genevieve, she also tried to get the City of Minneapolis to allow the tenants in our building to pay for our rental license ourselves, so that we could stay throughout the winter—well, at least throughout the redemption period. There is a 6-month redemption period if the old landlord doesn't buy the property back, you can stay there, just pay the utilities. I'm, like, yes, I can make that too. March 29th would be the end of the redemption period.

Well, that didn't look like that was going to work out, because the City wasn't really willing to do that for a fourplex. Maybe more with a single ownership, a single-family home, but for a fourplex, I guess they weren't really able to do that.

Legal Aid then connected me with St. Stephen's Housing Human Services, and their housing advocate, her name is Susan Dunn—I mean Sara Dunn, I'm sorry, she helped me greatly. She—as soon as she got wind of what was going on, and her contact with Legal Aid and Genevieve, they had their own assistance program for renters who were affected by foreclosure. I didn't know this program was available. And since we found out the property had been in foreclosure and had been in—had numerous utility shut-off notices—this is about the time when I found out from Sara that, yes, I was eligible for some financial assistance, if the property was foreclosed on, that maybe she could help me with relocation fees,

relocation money, that kind of thing, which was a great burden off my mind.

Since it was in foreclosure, the old building manager left the unit, and some of his family moved in upstairs. No lease, they were basically squatting. Another unit up above me, who were receiving Section 8, they moved out to another Section 8 property, once they found out about the foreclosure. And they left and allowed their friends and family to move into their unit. There have been three or four squatters in the vacant units and in the basement, which does not have a secured door, and it has been hard or impossible to get the squatters there to contribute to the utility payments.

In fact, what just happened last week was, the new owners—the new owner—and I just found this out from Senator Higgins. What happened was, the new owners bought this property from one of the banks, one of the mortgages—okay, I’m finishing.

Chairwoman WATERS. Your time has expired; however, we want to hear the end of this story. So, please, keep going. There’s unanimous consent to grant this gentleman additional time to finish this story.

Mr. ANDERSON. Well, to make a long story short, the squatters made it impossible to—they brought other problems to the building. We actually had police come out last week to take one of the squatters out. The new landlord, I think he’s a landlord, he came in and asked to see the apartment, and the guy opened the door with a wrench and said, “You’re not coming in my house, white dude; you’re out of here,” and he closed the door on him. And this is one of the squatters, I don’t even know his name. And the guy left, the supposed new owner, and the squatter came out of the house with a wrench and followed him to his truck, and they got to scuffling out there.

To make a long story short, it’s not safe for us or any other tenants who are qualified to be there or supposed to be there. And they told—the fire inspector came back out and told us that the building was at risk of being condemned again for suspected meth use by this person upstairs.

At any rate, from March to December, our building had virtually no management or ownership. This has created an unsafe environment for the remaining tenants. There’s no accountability, and we have no one to address our safety, utility, and maintenance concerns.

Right now, as of December 28th, we have a new owner who is selling it to another owner, an Irishman from Australia named Bernie O’Brien. And he says—he promises he’s going to close by September 20th and we’ll get a new stove. That’s a wrap, and thank you for your time.

[The prepared statement of Mr. Anderson can be found on page 75 of the appendix.]

Chairwoman WATERS. Wow. Ms. Louden?

STATEMENT OF CHRISTINA LOUDEN, CONSTITUENT, AND SECTION 8 VOUCHER RESIDENT

Ms. LOUDEN. I want to say thank you for giving me the opportunity to testify. My experience is with Section 8 and the waiting list. My name is Christina Louden. I’m a 31-year-old single parent

of two daughters: Ruby Rose, age 9; and Danista, age 5. I am currently unemployed but pursuing my bachelor's degree online in business administration while actively looking for employment.

When I first applied for Section 8 assistance in May 2003, I was a single parent of one child and paying more than 50 percent of my income towards rent. During my 6½ years on the Section 8 waiting list, I had another child and managed to make my rental payments, however rarely on time. On February 12, 2009, I lost my job due to health concerns. I recently had a pacemaker put in and have suffered significant injuries in an automobile accident.

I was on the verge of losing my apartment and was unable to pay my rent. I did not receive child support or any childcare assistance, and my income was significantly reduced to some welfare for my children and unemployment insurance. I called the Section 8 department in March 2009 and was informed that I was near the top of the waiting list, and was finally approved for the Section 8 voucher in July of 2009. I found an apartment and was leased up in November 2009.

My two-bedroom apartment rents for \$960 per month, and my share of the rent is \$432 per month. And this is more than half the rent I would be required to pay if not for my Section 8 assistance.

This housing assistance allows me to make sure my children have adequate food, clothing, and shelter, as well as being able to provide them with what is needed for school and other day-to-day requirements.

My lower rent also enables me to be able to prepare for a better future. I'm attending the University of Phoenix online, and I expect to receive a bachelor's degree in business administration in 2011. I hope to be able to use this degree to find a better job and put myself in a position where I will no longer need Section 8 assistance, and someone else who needs the help can have the same opportunity that Section 8 has brought to me.

I am not an expert in what Minneapolis needs, nor in affordable housing. I can tell you that waiting 6½ years to receive assistance is not a realistic way to help people who so desperately need assistance. If I would have lost my job 2 years ago, or experienced any other kind of setback that would have impacted my income, my girls and I would have been homeless.

I think of all the families that I hear about who are homeless, and wonder, knowing that the miracle I experienced may not be there for them. The waiting list is closed, and I'm told that thousands of other families have to wait as long as I had to wait to get help. Thousands of others can't even apply for help at this time, and Minneapolis needs more Section 8 vouchers to help families. They need more landlords willing to accept Section 8, and they need more just plain old affordable housing.

There is an economic crisis, and so many families are impacted by it. I know, from my 6½ years on the waiting list, that for low-income people working or on welfare, there has always been an economic crisis. Rents of over \$1,000 per month, car payments, insurance, food costs, clothing costs, medical, and other day-to-day costs associated with just living, are almost impossible to meet with a low-paying job or welfare benefits.

It is hard to even have to ask for assistance. And I want you to know that assistance should be viewed as an investment instead of a handout. With the investment you are making in me and my family, you will see a big return. I will graduate college, find a good paying job, and help my children, so hopefully they will not have to experience the difficulties that I have had to face.

[The prepared statement of Ms. Louden can be found on page 111 of the appendix.]

Chairwoman WATERS. Let me thank all of our witnesses for being here today. Each of you, in some way, has touched on what we work for and about every day. And the issues that you raised are at the centerpiece of our legislative agenda, serving on the Financial Services Committee and the Subcommittee on Housing and Community Opportunity.

Let me just briefly say, this Nation is a little schizophrenic about public housing. On the one hand, we have a lot of people who are supportive of public housing, yet we have people who want to see public housing not as an opportunity for the least of these or people who really find themselves in a position where they cannot afford to live anywhere else but public housing. But they want to change the requirements and the makeup and a lot of things about public housing to basically eliminate trouble, rather than providing the resources and the money to assist people to change their lives and to be able to manage their lives and be given opportunities. And we have some people who want to just eliminate public housing altogether and maybe deal with the Section 8 and scattered housing, and who just believe that there should not be a public housing kind of footprint.

I support public housing. I support the upgrade of public housing, money for renovation, repairs. But I also support money for services. And I appreciate what you described to us today and what you're doing. You certainly are innovative in creating that center that you referred to. So some of us, despite a growing call for almost getting rid of public housing, some of us are supportive. And even when we are not so sure, we know that some public housing in some cities would like to renovate and to downsize, but we're going to insist, for the time being, one-for-one replacement on all public housing. We're going to do that because we are not going to go down this road of getting rid of units.

You have heard described here today so passionately the need for low-income housing. The Housing Trust Fund, yes, we had \$1 billion. We supported—Barney Frank has put his life on the line for it, and we have passed it, I believe, in the House. And we don't know what's wrong with the Senate, but the Senate never can seem to get its act together. But, yes, we intend to get that billion dollars. And, you're right, we should have the goal of having a permanent funding Housing Trust Fund for years to come, whether it's \$5 billion or whatever. That's an ideal, that's a goal that we would like to reach, we would like to support. We worry about it when we have more and more people crying about the deficit and talking about cutbacks, but we're going to fight for not only the billion that we have already passed out of the House, but we will continue. Because, you're right, there is a need for low-income housing

that has never been met in my career, my time in public service, and we have to continue to work for that.

Know your rights. I can remember, I guess in civics classes when I was young, that there was a program called Know Your Rights. And they always talked about how it's important for people to pursue justice and how it was important to have agencies that would assist people in knowing their rights. And you're absolutely correct, we're not against the landlords. We need landlords to provide housing. But we need landlords who are fair and who will treat the tenants right and who will invest in the properties. And sometimes the landlords forget that they have lease contracts and arrangements, and they just overlook that and they try and do whatever they want to do. We have to make sure that we deal with this business of cutting off utilities and pulling out the washing machines and all of that stuff. But I'm so pleased about the work that you do in helping to assist people with legal services.

For homelessness, we reauthorized the homeless program. And one of the things we are focused on is permanent supportive housing for the homeless. We want—and we will continue—I think we put some money in to—we authorized money for permanent supportive housing, and we're going to have to expand on that. The idea that somehow homeless people cannot manage an apartment or do not want permanent housing, they kind of lack the way that—we have to get rid of those notions. And we have to show that with supportive services, most of the homeless can be put off the street, and you don't even need a transition period. You can go right into permanent supportive housing, if you have the services to go along with assisting people who need some assistance. So we're going to work toward that end. We have \$1.8 billion—\$1.5 billion we put into the stimulus package, above and beyond what's in the budget, we have additional money.

And so—the City that I come from is perhaps the homeless capital of this country, and it is heartbreaking to walk through downtown Los Angeles and see what is going on there. And I'm committed to it, Congressman Ellison is certainly committed to it, and we're going to do everything that we can with this Administration to do what has not been done for far too long. Thank you for dedicating your life to this work; we really do appreciate it.

I want you to know, it was just today that someone, and I forgot who it was, asked what were we going to do about tenant ownership of some of these foreclosed properties. Who was it that asked me that?

Mr. DAHL. (raises hand)

Chairwoman WATERS. That was you who asked me that. What was just described by Mr. Anderson, where the tenants were abandoned and you were left in this property and all that you described, I was just sitting here thinking, what can we do, with the kind of proposal that you alluded to, that would provide the opportunity for tenants to have taken over that building and to own that property and manage that property? There needs to be capital, there needs to be well-thought-through programs about how you do it, but it's certainly, certainly needed. So you have put that on our radar screen, and we will do everything that we can to pursue examining those possibilities. And thank you for just hanging in

there. You could have just said, well, let me just go on and try and find some shelter to live in until—but you—you're pretty tough. And so for those squatters, you can handle them. Yes, that's going to be great.

And I'm appreciative for the testimony that you were able to give about Section 8. I appreciate—well, first of all, you frightened me, when you first started to talk, about being 31 years old with 2 children and without a job, and then further, about the medical problems that you had. But you evidently are in control, no matter what. And you have said, in so many ways, to people, that they, too, can be in control, no matter how difficult it gets. You have to pursue opportunities and stick with it.

And I'm appreciative for the testimony that you gave for Section 8. We need so much more. And the reauthorization, I have asked for 150,000 more vouchers. That's just a drop in the bucket, but we have to fight for that. And I think—did we get that off the Floor? It's out of committee, but it's not off the Floor yet. But we're going to fight, and I'll do anything I can to try to increase that and keep increasing it. But we know how important it is and how it certainly saves families.

Let me just say to all of our advocates and all of our panel who have made their lives and their careers a part of this housing struggle for all of our people all over the country everywhere, I certainly appreciate you. I'm certainly dedicated to the proposition that we can do a lot better than we're doing, creating housing opportunities, maintaining sustainable neighborhoods, utilizing and expanding resources that make good sense, and we're going to keep working toward that end. And I believe that we're going to be able to do more under this Administration than has been done in many years, and so just keep working with us. Keep working with us.

I like advocacy on the ground. I like people to act up a bit and to make noise and to keep saying to their elected officials, these are the things that you have to do. Because politicians tend to get nervous around election time, particularly when they talk about deficits and we can't spend any more money and the government's getting too big and all of that. You have to help back them down, and talk about our need as a free and prosperous country to be able to supply a safety net for the least of these. And so the more you act up, the better we'll be. Thank you very much.

Congressman, please, please, go right ahead.

Mr. ELLISON. Can we have another round of applause for our chairwoman? My first question is for you, Mr. Anderson. When did you first get notice that the building that you had just rented a unit in was going to be under foreclosure?

Mr. ANDERSON. Actually, we signed the lease in November, got laid off in January, and got a foreclosure notice in March. And they sent the mail—I don't know if it was supposed to come to us, but we got it addressed to the landlord. But we got two foreclosure notices, first and second mortgage, at our address.

Mr. ELLISON. So it was never sent to you? You were never told directly, this building is in foreclosure?

Mr. ANDERSON. No—well, not until later on. But in the mail, it came addressed to the landlord, the foreclosure. Even the bank-

ruptcy mail came to us. That's the only way we knew what was going on, really, because she never contacted us again after that.

Mr. ELLISON. Well, I think there should be an affirmative duty for somebody, perhaps the landlord, but somebody to tell you as soon as they know.

Mr. ANDERSON. Right.

Mr. ELLISON. I think that that's something that we might want to start working on. Because it certainly would put you in a better position pursuing this idea of, perhaps, tenant ownership. You could, perhaps, get busy working on that the earlier you know.

Mr. ANDERSON. Right.

Mr. ELLISON. Let me also say that, Ms. Louden, I think your point about investing, together with the point that Mr. Amos made—Mr. Amos made the point that it's actually fiscally responsible to prevent people from getting into the homeless situation, because it costs more to get a person out of homelessness than to prevent somebody from ever becoming homeless. And then your point about investing in people. Here you're going to—about to be a college graduate, significantly increasing your earning potential. This program, which you almost—it seems like it's just a blessing that you were able to take advantage of.

Ms. LOUDEN. Absolutely.

Mr. ELLISON. How do you all respond to this? Do you think that it is fiscally responsible and actually saves money and actually increases wealth in our community by investing in people, by keeping them in homes and avoiding homelessness? Could you all—anybody on the panel address this issue? Ms. McCorvey? And everybody is welcome to answer.

Ms. MCCORVEY. Absolutely. Absolutely. Because it's providing a stable environment, not only for the parent or the parents, it's also the environment for the children. The children cannot prosper in chaos and confusion. Children need to be stable, they need structure, they need to have a base, like we all do. And so having the Public Housing Authority, Section 8 or those kinds of programs be there for people, it's critical. And I have built my life—spent my life with these programs for over 30 years in various levels, and I have seen how Section 8 and our public housing programs have not only stabilized families, but also seniors and people who are disabled. I know people who have had serious health problems and felt that public housing allowed them to live for as long as they had to live in dignity here. And they ended up dying, but they were very grateful to have that dignified place to live, where they didn't have to worry about their rent and whatnot. So, yes, absolutely.

Mr. ELLISON. Well, what about this issue—I know that Ms. Louden has—go ahead?

Mr. HALBACH. Just to add a quick note to that, I know it was 4 to 5 years ago, there was a study of Minnesota's TANF program, a welfare program. And one of the conclusions of the study was that people who had stable housing did much better economically than those that didn't. So in addition to what Cora was saying, in terms of her experience, there is documentation of that, at least in terms of recipients of TANF.

Mr. ELLISON. Well, when you think about housing instability, how does it—do any of you have any either personal experience or

secondary experience on how it impacts children? I do know that—I'm not sure which one of you said this, but I heard somebody say, about 4,700 people are homeless and some major percentage of that are children.

Ms. MCCORVEY. 45 percent of those are children, yes, based on the Wilder Research, yes.

Mr. ELLISON. Now, Ms. Louden, you are a mom?

Ms. LOUDEN. Yes.

Mr. ELLISON. What are some of the challenges that a parent might have when—for raising their kids, and how does it affect the grades, how does it affect all these things, when a parent is facing housing instability?

Ms. LOUDEN. Yes, and moving. There should be—they do thrive and grow on stability. It's—they have a place to call home, they have their bedroom, whatever, their area. It's very important. Getting them back and forth to school, extracurricular activities, they have a routine, but they always have that home to go to. And when we have moved and had to move—I see, like, my oldest, she's nine. Now my five-year-old's starting to come into it and notice what's going on. And, like, my nine-year-old will start—she asks a lot of questions, starts acting up and just kind of goofing off because there's no stability. She doesn't know what we're doing from one day to the next, so—

Mr. ELLISON. And how do the kids—how does it affect the kids? I am curious to know, maybe Mr. Amos can share, if a child is living in a shelter, and they go to school, and the other kids say, where do you live, how does that impact the kids?

Mr. AMOS. When I first started as a case manager, it bugged me to death that—I heard one of the children say that, when we were looking for housing, that they hated to be dropped off at a shelter, coming from school, because the other kids would tease them about where they lived, so they couldn't wait to get out of there. And that just made me want to get them out of there a lot faster. But now they have different buses that go to the shelter and drop them off.

But there are studies that have shown that if a family is homeless, if the parent is homeless for a long period of time, that child will grow up to experience homelessness also. So we don't want to start a pattern of homelessness within families. We want it to be as short as possible, back in housing, and stable as possible. As she said, having your own room, your own toys, your own place to go to, is stability in life. We all want that. And shelter should be a basic right.

Mr. ELLISON. I guess my last question is for Mr. Ireland. You ventured out into that unsafe water of race. And I was going to say that I thought that was a courageous thing for you to do. I think I can speak for people of color generally. When we hear people who are White speak about systemic racism, it makes us all feel a little bit better, because we know what's going on. And when it's like—and it makes me feel like, look, we're all Americans. Some have—we have different ethnic backgrounds, but we're all Americans. And you really can't totally maximize your resources as a society if one part of it is sort of relegated to the side, because we're not getting maximum production from that part because it's not fully included. What do you think we should do, and how do you think we might

communicate the message of racial justice and inclusion as we pursue this work?

Mr. IRELAND. I think that any discussion of race, particularly from some 6-foot White guy like me, has to be done with humbleness and done very carefully. Because race is a conversation, a discussion, about racial justice. And just the historic draining of resources and assets and money from communities of color, it's just something that has to be done very carefully. But I think that it was—we just celebrated Dr. King's day. And in his last book, "Where Do We Go From Here, Community or Chaos?", he set out a structure for that conversation to occur. I think that it would be in the best interests of everybody to follow that structure. First, you identify, where are we at right now? The second thing is that you assert the dignity and worth of all people, and assert that vigorously. And then you identify the structural impediments to moving forward, and then you fight like hell, in a nonviolent way.

And so, for that to occur, and with race underpinning and being the unspoken issue in the financial crisis, in the foreclosure crisis, you have people like Ann Coulter who blames the Community Reinvestment Act for the financial crisis. So you're stepping into a dangerous environment where a discussion about race could, if done incorrectly, backfire. But I think it has to be done, because that's going to inform how you target the resources.

Because every initiative, it seems like, over the past 50, 75 years, you start out with the intention that you're going to improve communities, improve neighborhoods, and then all of a sudden those resources start getting split off, and the people who are most in need of those resources, it doesn't quite get to them. Somehow all of a sudden you're building a stadium or a prison, instead of infill housing in North St. Louis or North Minneapolis. And so those resources start being peeled off. So as we talk about expanding Section 8 vouchers, as we talk about expanding affordable housing tax credits, now we have the point where we can do that—if we have that conversation about race, we can target those, to make sure that affordable housing, low-income housing, is put in communities where it's going to provide that ladder. Leveraging mass transit, good schools, located near jobs, all those goals that have been there all along, but making sure that it happens.

Mr. ELLISON. Well, I think it's important to be able to discuss issues of race in a non-polarizing way that brings people together, as opposed to just sending people into their corners. And so I want to thank you for introducing that important topic into this congressional hearing. Let me tell you, it's not often that congressional hearings have that element of the conversation brought up.

And so I just want to, again, give praise and honor and thanks to you, Madam Chairwoman, and also all of our witnesses who have testified so eloquently. I just want to remind people, if they want to get something into the hearing record, I think we can accommodate that. And this is a real congressional hearing, just like one we have in Washington all the time. Before I yield back, I'll hand the floor to Mr. Anderson.

Mr. ANDERSON. Well, since this is on the record, down here on the ground, I really would like to see how we're going to get jobs back into the community. From where I stand, if I can't work, I

can't eat, and I can't afford affordable housing. And so laying off—I have never been laid off twice in one year before, and it happens. And so I'm just saying, most of the jobs that pay anything in the Twin Cities—I'm originally from New York, but in the Twin Cities now, most of the jobs that pay any kind of money, whether skilled or semi-skilled, are out. Transportation is an issue, the weather's an issue, all of that. But there was a time, when I first came here, where you could practically walk to your job. The good paying jobs were right in the community or close enough to it. Is there any way—is that going to happen, infrastructure coming back, monies, anything?

Mr. ELLISON. Well, let me just tell you, it's funny, because actually both Congresswoman Waters and I are very focused on issues of jobs. And I can tell you that based on my—what I hear in our democratic caucus meetings, that most members of our caucus are very focused on jobs. We have the Senate issue to overcome, but a lot of members really, really want to see a jobs—we passed a jobs bill right before the Christmas break. It included some extensions of unemployment insurance, COBRA—COBRA, when you lose your healthcare, and then—and some food stamps and then some infrastructure investment.

Many of us are still focused on a jobs bill. We're trying to figure out how to get the Senate to come along with it. But I think we need—but jobs are our front strategy. I have told more than one Member of Congress, if we don't figure out how to get some jobs, we're going to be looking for them ourselves.

And let me just tell you this. I have a jobs bill that calls for—we put \$40 billion that would create 1 million full-time jobs, with nondisplacement procedures, like prevailing wage, stuff like that, together with an infrastructure investment, because all the—not only do we need the jobs, but we need the work done. Our roads and bridges are crumbling. You all know, we could walk to 35W from here, where the bridge fell down, Madam Chairwoman.

And so jobs are a key focus element. We want to put money into State and local government, so that we can retain essential city and county and State services, which you know are being cut. And with the LGA cuts, they're really hurting locally around here—39 States are facing a deficit right now, and are cutting. So with that, I'm going to yield back to our chairwoman. Thank you very much.

Chairwoman WATERS. Thank you very much. As we wrap up, I would like very much to thank all of our panelists for participating in this hearing. We were not able to talk about all of the public policy work that we're involved in.

In this conversation that was held just a moment ago about race, we just had a hearing on a piece of legislation that was initiated by Congressman Al Green, where he's asking now for \$20 million, and I'm suggesting that he increases it to \$50 million, for what is known as the PIP program. This is a program, fair housing program, where the testers go out. And I was kind of surprised to discover, in that discussion, that there are many cities that don't even have this at all. So we're going to increase that. We'll get that legislation passed out of our committee.

In addition to that, we're going to talk about appreciation for Secretary Donovan. St. Bernard Parish down in New Orleans had

developed local laws to prevent multifamily housing, because they didn't want those people in their neighborhood. And it had gone into court and to the court system, and the courts had ruled against them, but they defied the court. Secretary Donovan came in and said, you're not going to get any Federal money unless you change these local laws. And so they began to understand that they have to eliminate those laws, reverse themselves, in order to get any Federal money to have in their parish at all. So sometimes it doesn't take legislation or litigation, it just takes a person with the power to exercise it. And I'm very appreciative about the way that Secretary Donovan is moving in that way.

And another little story is this. As you know, there was a lawsuit that was filed against Wells Fargo, because they were accused of targeting minority neighborhoods in the subprime meltdown. I think the NAACP Legal Defense Fund and some others were involved in that. They didn't win. But I called the CEO of Wells Fargo, Mr. Stumpf, to talk to him about the lawsuit. And he seemed very humble, and he said, yes, but they were going to do more. He said, I remember you told me that we weren't doing well in these loan modifications, and I need to get our servicers on the ground, I need to get more storefront operations, I need to be available to the people. He says, I'm going to do that. He said, I think that we can do more. And so I was appreciative to hear the CEO, even though they won that lawsuit, really in many ways acknowledge that they needed to do better.

So we are all working on some of these issues. And as you said, the discussion must take place. And those of us who have the power to do something constructive about these issues, must use their power to do so. So I want to thank you all for the issues that you have brought up today.

And I'm reminded by my staff that the memorandum that you just gave me about what Chairman Barney Frank wanted to do on preservation in relationship to the first refusal memorandum, there's more going on than I knew about. Right of first purchase, it seems that Barney Frank is now in the process of trying to work out how to put it in his preservation bill. And it's not easy, because we have a lot of the owners of multifamily properties who threaten to drop their support of preservation if the right of first purchase is in.

Now I want you to know that sometimes the wheels of progress move very slowly. And when you're moving something like preservation, which is extremely important, and you have the support of the multifamily owners, that's good support. But when you start to lose that support, it threatens the legislation, and sometimes it takes time to keep working on it, and it may have to go beyond, certainly, this legislative session. But it is on the radar of Barney Frank, and we will talk with him about it when we get back. Thank you all so very much for your participation.

Also, the Chair notes that there may be additional questions for this panel, which we will submit in writing. And without objection, the hearing record will remain open for 30 days, so that we will be able to submit written questions to these witnesses, and place their responses in the record, and this panel is now dismissed.

Before we adjourn, however, I'm told the written statements will be made a part of the record of this hearing. We have some written statements we're going to insert, from the City of Lakes Community Land Trust and Mr. Robert Roedell. We will make sure that their statements are included in the record.

Thank you all so very much, and this panel is dismissed and the hearing is adjourned. Thank you.

[Whereupon, at 3:10 p.m., the hearing was adjourned.]

A P P E N D I X

January 23, 2010

Written Testimony of Richard Amos, Director of Housing Services at St. Stephen's Human Services, Inc.

The mission of St. Stephen's Human Services is to end homelessness. We carry out our mission of ending homelessness by serving over 6,200 people each year through homelessness prevention assistance, street outreach, shelter, transitional and permanent housing, support services, employment programming and more. Our programs fulfill immediate needs and help people grow increasingly self-sufficient in order to not return to homelessness. Our vital partnerships with other service providers, government, and the community ensure services are not duplicated and the need for systems change is addressed.

PROGRAMS

- 1) **Emergency Shelter** provides safe, sober shelter, meals, advocacy and housing assistance to men experiencing homelessness. We also offer a specialized Shelter Employment program and an on-site savings program to save toward independent housing.
- 2) **Kateri Residence** is a transitional housing program for homeless American Indian women in recovery and their children. An alumnae aftercare program provides subsidized housing and support as women transition to independence and work toward long-term sobriety.
- 3) **Housing Services** helps families and singles move out of shelters with subsidized housing and support services. We provide homelessness prevention assistance and special housing for pregnant women and we also run an ex-offender housing program and partner to operate the STRONG (STREngthening Our Next Generation) program for young mothers.
- 4) **Employment and Family Services** works with parents to help them transition from government assistance to self-reliance by obtaining and maintaining employment.
- 5) **Alliance of the Streets** publishes and distributes the *Handbook of the Streets*, a resource guide for area homeless services. We provide monthly representative payee services, assist people in obtaining birth certificates and voicemail boxes and provide holiday meals.
- 6) **The Free Store** provides clothing and small household goods to people in need.
- 7) **The Human Rights Program** assists formerly or currently homeless individuals in self-advocacy. Together, we organize to improve public policy and educate community groups about homelessness with a learning opportunity called *A Day in the Life*.
- 8) **Programs to End Long-Term Homelessness** works to find permanent housing for long-term homeless individuals and support them in their new housing. Programs include the Collaboration on Housing Resources (COHR), Frequent User Service Enhancement initiative (FUSE), and the Street Case Management project (Street CM).
- 9) **Street Outreach** works with people living on the streets in Minneapolis and community members who are concerned about them. The outreach team is a first contact for the homeless to begin the process of finding housing and services needed for stability.
- 10) **zAmya Theater Project** (formerly an independent 501 (c) (3) organization) recently became a program of St. Stephen's Human Services. zAmya works with people experiencing homelessness

to perform community-based theater with an emphasis on increasing awareness and understanding about homelessness.

New Activities

- Our Housing Services program developed specialized housing for pregnant women and mothers with young children and began a housing partnership with Twin Cities RISE to provide housing to the homeless men of color in their employment training program.
- St. Stephen's Human Services is leading an effort to create an **Oral History of Homelessness** by documenting this socio-economic time in our nation's history through the collection of first-person narratives and portrait-style photographs of people experiencing homelessness. Over 250 interviews/portraits have been collected throughout the state to date.

CLIENT POPULATION

St. Stephen's Human Services assists families with children and single adults who are experiencing homelessness and poverty. We have the expertise to serve a diverse population including homeless recovering American Indian women and their children, families and single adults staying in shelters and those who are at risk of eviction or foreclosure, homeless pregnant women and young mothers, ex-offenders, the long-term homeless on the streets and the most frequent homeless users of detox, shelter, and jail who are cycling through the system with barriers such as joblessness, mental illness, addiction, criminal history and a lack of education.

ORGANIZATIONAL SERVICE STATISTICS (July 1, 2008 to June 30, 2009)

For the last fiscal year, we have accomplished our mission of ending homelessness by:

Serving the most vulnerable

Households served (unduplicated).....	3,905
Adults served (unduplicated count).....	3,949
Children served (unduplicated count).....	2,252
Long-term homeless housed & received support services (unduplicated count)	546

Creating housing opportunities and preventing homelessness

Families and Adults without children housed & received support services.....	946
Households prevented from eviction or foreclosure.....	488
Housing stability maintained 12 months after being housed.....	90%

Building capacity for self-support

Job placements by Employment and Family Services (EFS) and

Shelter Employment Program..... 345

Percentage of EFS clients retaining job for 6 months..... 85%

Handbook of the Streets distributed..... 26,064

Women in Kateri programs learning parenting and life skills 100

Educating the communityParticipants in *A Day in the Life* learning program about homelessness..... 326**What trends are you seeing in terms of the number and types of people seeking assistance? How is the foreclosure crisis impacting our work?**

We are seeing more working people seek housing /rental assistance a few months ago the shelters were busting at the seams and the Rapid exit workers had to increase the numbers of families they moved in order to not use hotels. Our prevention line receives calls daily where families have moved into housing only to find out that the house is in foreclosure and they'll have to move again. Also, there is competition for the rental affordable housing, and it reduces the selection options for the population we serve. As an innovative process we are working with legal aid to prevent these families from going into shelters by assisting them with their relocation search/funding if their house has been foreclosed on.

The Rapid Exit Program is a program where families are screened before going into shelters, accessing their level of barriers e.g. evictions, criminal history, bad credit, no rental history, and other then referred to the case manager who best serves these levels to obtain housing and assist with stabilizing their housing during the 6 month Supportive Housing Program process and we utilize Family Homeless Prevention and Assistance Program funding. Our program places around 3,905 persons a year into housing and we are having an 85% success rate with people staying out of Hennepin County funded shelters over 1 year.

The federal lawmakers can speed the process up from beginning to end it may take a project 9 or 10 months to turn around and we aren't even talking funding released yet. If there could be a fast track process for tried and true developers where the lawmakers work with them to turn a project around and not cause the neighborhood to look bad waiting on this development to come online it would be great for all concerned.

What other resources are needed from the federal level? How could those resources be better targeted to meet your needs?

We know how to end homelessness. We simply need to go to scale with the effective interventions that are for the most part, being implemented.

A three-pronged strategy of

- Prevention,
- Rapid Re-Housing for the 80% of the homeless who end up on the streets/shelters
- Affordable housing with support services for the 20% of the homeless who are disabled

The greatest resources that are currently missing from the federal level are housing subsidies. It is ironic and tragic that while federal housing assistance for low-income renters has been reduced dramatically in the past 30 years, federal housing assistance for homeowners has doubled since the early 80's. Providing low-income renters with subsidies will end homelessness for the vast majority of households who end up on the streets. The withdrawal of the federal government from intervening in the housing market at a meaningful level has left state housing authorities and local governments to come up with their own meager resources to take on the challenge.



Housing: Homeless Prevention, Rapid Exit are programs aimed at ending homelessness

Media contacts: Markus Klimenko, Housing and Homeless Initiatives: 612-596-7036
Marge Wherley, Rapid Exit Program: 612-348-4829
LuAnn Schmaus, Public Affairs: 612-348-7865

Fast facts

- ▲ Hennepin County's Homeless Prevention program helped nearly 2,189 families and more than 477 adults between 2007 and 2008; 95 percent of families and 95 percent of single adults were stable for six months or more. The average cost was \$875 per family or \$610 per adult.
- ▲ Between 2007-2008, Hennepin County's Rapid Exit program helped more than 1,276 families and 451 adults leave shelter for permanent housing; 95 percent of families and 90 percent of adults remain out of shelter for at least six months after their cases are closed. The average cost is approximately \$1,100 per family and \$850 for adult households.
- ▲ One episode of homelessness for a family is estimated to cost \$5,000.
- ▲ People at risk of losing housing can call 2-1-1 for the United Way's First Call for Help for information about programs that may help. If you need legal help to keep your housing, call Legal Aid (Minneapolis residents: 612-334-5970) or HomeLine (suburban residents: 612-728-5767).

Closing the door on homelessness in Hennepin County

Hennepin County uses a variety of strategies and programs in an effort to end homelessness. Two of the county's programs, Rapid Exit and Homelessness Prevention, have drawn national attention for their innovative approach and cost-effectiveness. These approaches impact both the front and back doors of homelessness.

Homeless Prevention program helps keep families in housing

Homeless Prevention provides short-term financial help or legal assistance to help keep people in their existing housing. The target population for this program is people who normally can afford their own housing but are at risk of losing it due to an unforeseen financial crisis. The program is funded by a mix of state, federal and county funds.

Rapid Exit helps homeless families find and secure housing

Despite efforts to prevent homelessness, there are still people who lose their housing and end up at an emergency shelter or in secure waiting. Rapid Exit strives to get people out of shelters and back into stable living situations as soon as possible.

Rapid Exit is unique because it quickly and efficiently assesses the specific housing barriers that people must overcome and gets them immediately referred to services that address the issues. This helps get people out of shelters and into stable housing as rapidly as possible. Services are provided by nonprofit organizations. A citizen-based advisory committee assists in program planning and implementation. The program is funded by a mix of state, federal and county funds.

How much do the programs save?

One episode of homelessness for a family is estimated to cost \$5,000, which is mostly paid with county dollars. Homeless Prevention spends approximately \$610 to help an individual or \$875 to help a families maintain their housing. Rapid Exit spends less than \$1,100 to help a family and \$850 for adult households.

Why is Rapid Exit on the list of national best practices?

The Rapid Exit services are tailored to clients' needs. This is accomplished with a flexible provider system that:

- Offers the ability to quickly change services to respond to changing client needs.
- Uses a client assessment-and-referral process to assure that the "right" amount of services is provided.
- Focuses on outcomes, not processes or services.
- Allows for greater creativity in providing services.

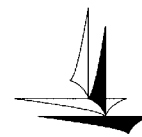
Foreclosures

THE MINNEAPOLIS FORECLOSURE RESPONSE

Three Point Plan



City of Minneapolis / CPED

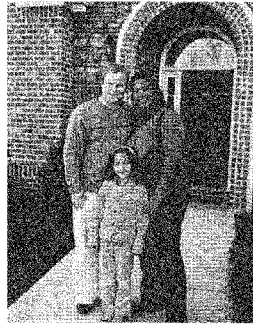


City of Minneapolis
Department of Community Planning
& Economic Development - CPED

PREVENTION

Counseling Assistance

Homeowners were two months behind on their mortgage payments, due to unforeseen medical expenses, when they attended a City-sponsored foreclosure workshop. At the workshop, they were able to speak directly with their lender. As a result, the family was able to work out a plan and prevent foreclosure.



What the City is Doing

The City is continuing aggressive prevention strategies as long as foreclosure rates remain high. The costs associated with a foreclosed property average \$78,000. Foreclosure counseling and prevention costs, on average, \$500 per person assisted. Minneapolis has invested \$1.1 million in prevention since 2007. This annual investment assists 1000 households, and half of those receiving intensive support will avoid foreclosure.

Strategy

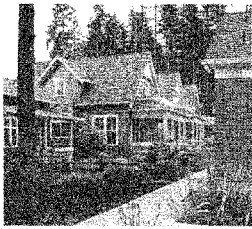
City of Minneapolis Mortgage Foreclosure Prevention Program funds will continue to assist the Minnesota Homeownership Center in homebuyer education, foreclosure counseling and the issuance of loans for reinstatement. Proposed funding for these programs will be \$660,000 in 2009.

REINVESTMENT

Cluster Development

Make big changes in a small area. That's the idea behind the City's focus on six targeted geographic areas or "clusters" on the Northside. In partnership with the Northside Home Fund and neighborhood organizations, the City is focusing on the redevelopment of vacant and boarded homes, community outreach and organizing, foreclosure prevention and the establishment of a development partnership to identify and implement residential development opportunities within the clusters.

The Hawthorne neighborhood's EcoVillage Cluster, designed to become a green, stable and healthy neighborhood, is supported by a \$500,000 grant from the Home Depot Foundation.



What the City is Doing

The City is working with partners to rebuild neighborhoods that have experienced large numbers of foreclosures. The City acts aggressively to acquire property and remove blighted structures as a top priority. A single, abandoned property on a block can reduce the value of nearby homes by 15 percent. The City works with partners to acquire properties that are in foreclosure, and then rehabs them to resell to eligible buyers.

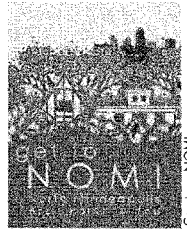
Strategy

The City is at work envisioning a healthy housing market, ensuring that development helps rebound the market. Housing and Economic Recovery Act funds will provide subsidies for rehabilitation of up to 100 properties. The National Community Stabilization Trust may make available hundreds of foreclosed properties for bulk purchase at a reduced rate and provide access to \$30 million to assist in acquisition and rehabilitation.

REPOSITIONING

NOMI Marketing Strategy

"Get to NOMI" (short for North Minneapolis) is a grassroots marketing campaign geared to promote the Northside's arts, parks, businesses, affordable housing and other amenities. The NOMI branding strategy is led by neighborhood groups, residents and local real estate agents. The community has led various home tours throughout the Northside, showcasing the amenities of the neighborhoods and attracting new homebuyers.



What the City is Doing

As properties are acquired, the City and its partners are working collaboratively to reposition neighborhoods for market recovery. To rebuild a healthy housing market in neighborhoods affected by foreclosures, the City works with neighborhood and community-based marketing efforts to bring new buyers to the neighborhoods. The City's goal is to engage the private market as much as possible in achieving a stable, healthy housing market in its communities.

Collaboration on other neighborhood-based initiatives to market and promote neighborhoods and city living includes University Alliance, Phillips Partnership, Northside Home Fund cluster developments, Northside Arts Collective and many others.

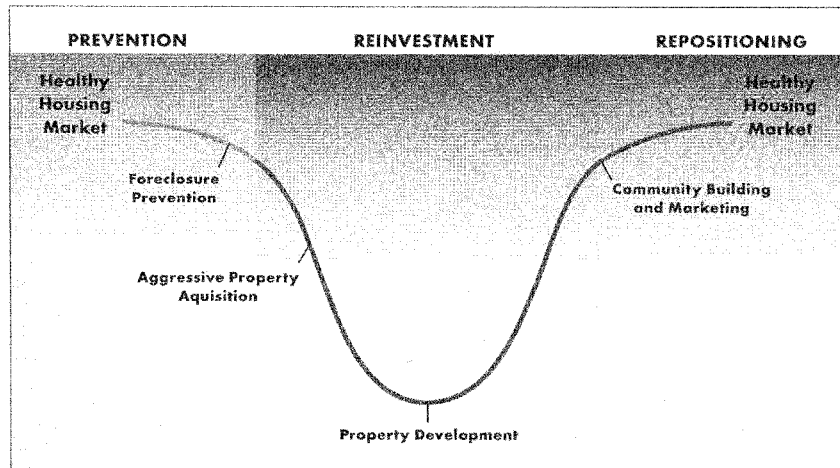
Strategy

The City will expand its homeownership incentives, like the Minneapolis Advantage program, which provided down payment and closing cost assistance to 50 homebuyers in areas highly impacted by foreclosure in 2008, and has proposed funding to assist an additional 50 homebuyers in 2009. Federal Home Loan Bank funds, if awarded, could expand the Minneapolis Advantage program, targeting down payment assistance to 150 low-income homebuyers of foreclosed properties.

Foreclosure Recovery Plan

CITY OF MINNEAPOLIS DEPARTMENT OF COMMUNITY PLANNING AND ECONOMIC DEVELOPMENT (CPED)

In Minneapolis 3,077 properties were foreclosed in 2008 and another 3,000 are projected for foreclosure in 2009. About one-third of the foreclosed homes are condemned and boarded, or registered as vacant. The City of Minneapolis' focus on prevention, reinvestment and market repositioning in 2009, and beyond, will lead to market recovery in its communities.



PREVENTION

Strategies to Recover a Healthy Housing Market

Employ **foreclosure prevention** outreach and counseling as foreclosures rise and as the housing market begins to decline. Continue aggressive prevention strategies as long as foreclosure rates remain high.

REINVESTMENT

Pursue **aggressive property acquisition** when the housing market is low and properties are inexpensive. Develop multiple strategies to compete with investors in order to prevent the turnover of single-family homes to rental.

Promote **property development** when the market is poised for recovery to drive the market back towards a healthy housing market. Clearly envision a healthy housing market prior to the development stage to ensure that development helps to drive the market to rebound. Some factors to consider include income mix, rental and homeownership mix, design and amenities.

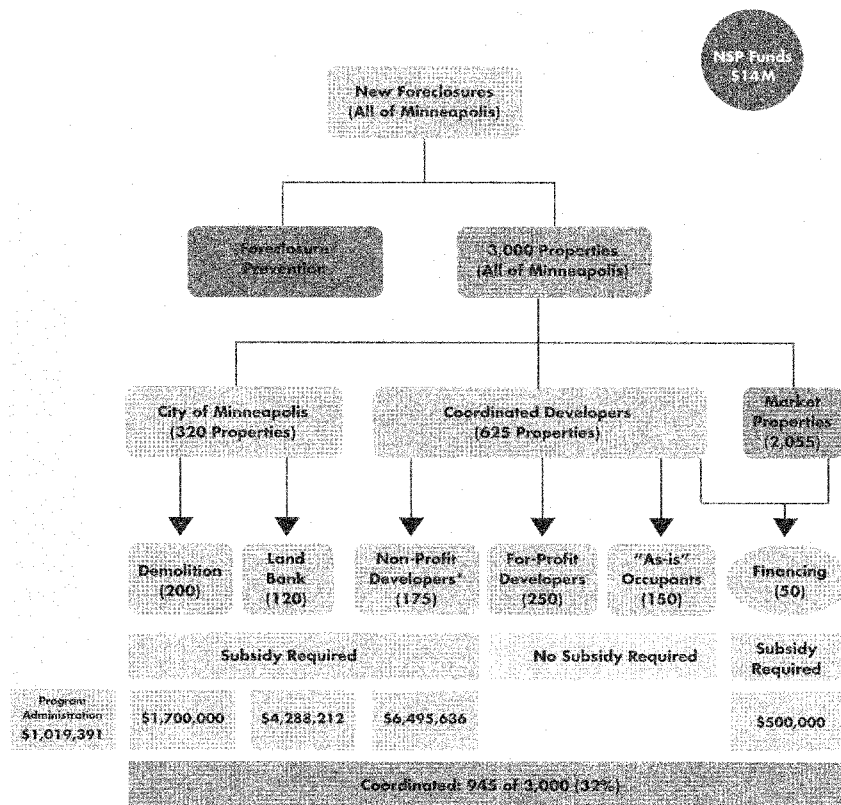
REPOSITIONING

Engage in **community building and marketing** efforts to prepare the market for a rebound. Expand homeownership incentives and engage in neighborhood-based initiatives to market neighborhoods and city living.

For more information on the City of Minneapolis' response to foreclosure, please visit our website www.ci.minneapolis.mn.us/foreclosure/

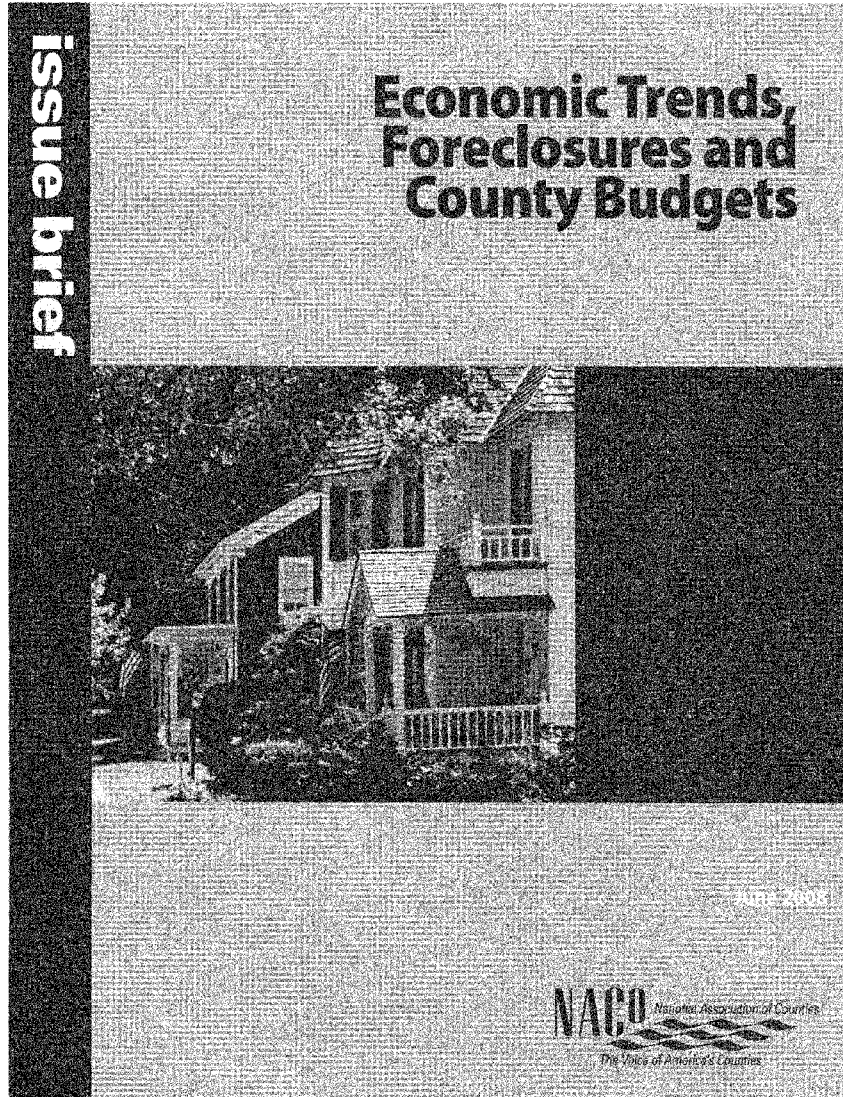
HERA Neighborhood Stabilization Program (NSP)

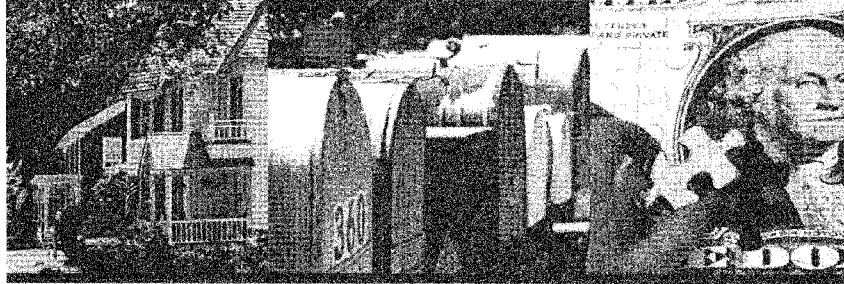
MINNEAPOLIS FORECLOSURE RECOVERY PLAN



* HERA's Neighborhood Stabilization Program requires that 25% of the funds received must be targeted to households at or below 50% of area median income (AMI), or \$40,450 in Minneapolis. 175 properties will yield 236 units.

Notes: There may be duplications in the numbers of coordinated properties. The number of properties may project the ability to recycle funds.





Economic Trends, Foreclosures and County Budgets

**A Publication of
the Research Division
of NACo's County Services
Department**

**Written by Alex Welsch
Associate Research Director**

June 2008



About NACo – The Voice of America's Counties

The National Association of Counties (NACo) is the only national organization that represents county governments in the United States. Founded in 1935, NACo provides essential services to the nation's 3,066 counties. NACo advances issues with a unified voice before the federal government, improves the public's understanding of county government, assists counties in finding and sharing innovative solutions through education and research, and provides value-added services to save counties and taxpayers money. For more information about NACo, visit www.naco.org.

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Introduction

Economic shifts in housing markets combined with the potential for a recession have generated a climate of financial instability for many U.S. county governments. Foreclosures, declining property values and property tax revenue shortfalls are consistently making headlines, but county governments are also affected by spillovers from these trends such as a tightening of credit markets and added demand for social services. This issue brief provides background on economic trends, explains how the trends impact county budgets in different regions, and finally describes some ways that some counties are responding to particular challenges related to foreclosures and revenue shortfalls.

County budgeting

A county budget is essentially a plan for using a county government's financial resources. The plan details expected revenues and projected expenditures. From county to county, the length and timing of budget cycles vary. For example, Johnson County, Iowa has an annual budget with the fiscal year beginning in July and ending in June¹. In contrast, Hillsborough County, Florida has a biennial cycle lasting two fiscal years, each from October through September². During the fiscal year, current budget performance analysts compare the "approved" budget with "actual" revenues and spending. Unexpected events such as a widespread decrease in property values, new state or federal mandates, or an increase in energy costs may lead to a situation where costs exceed revenues. The effect of these events may be immediate as with a spike in energy prices or more lagged as with shortfalls caused by a downward trend in property values. Depending on how events unfold, county staff and elected officials make adjustments to balance the budget.

County revenues and changes in the economy

According to the 2002 Census of Governments³ published by the U.S. Bureau of Census, county governments generally collect sixty-two percent of revenues from "own sources" such as property taxes, sales taxes, fees and charges or, less commonly, income taxes. Intergovernmental revenues account for the rest. Altogether, counties receive three percent of their revenue from the federal government, 33 percent of their revenue from their home states, and two percent from local governments.

A combination of foreclosures and an economic slowdown affect most if not all these components of county revenue. First, since property taxes account for 57 percent⁴ of counties' self-generated funds, declining property values related to foreclosure clearly impact county revenues. Less directly, an economic slowdown can have a significant impact on intergovernmental sources of revenue. Without increased federal spending in response to economic instability, reductions in

federal income tax revenues would likely result in cuts in federal appropriations for state and local government programs. In addition, most state governments collect income taxes but are almost uniformly subject to state constitutional balanced budget requirements. Therefore, barring a substantial "rainy day" reserve fund kept by the state government, or an increase⁵ in state taxes, a slowdown would result in reduced state contributions to county budgets⁶.

Locally, a slowdown can by itself affect multiple county own-source revenue streams. A slowdown would probably coincide with a reduction in demand for housing, lower property values and then lower property tax revenues. In addition, since people with lower incomes or lower wealth tend to consume less, sales or gross receipts tax revenues are also affected by an economic slowdown and declining property values. These trends would reduce revenues.

On the expenditure side, county governments may have difficulty controlling costs during a downturn. Contractual wage increases, health insurance costs, energy costs, and mandated program costs may continue to rise even as revenues decline relative to budgeted amounts. This year, the executive from Putnam County, New York projected in his state of the county speech⁷ that if revenue did not increase to keep pace with rising costs, property tax payers would face a 22 percent increase. Since this would not be politically feasible, the county executive concluded in this scenario that discretionary programs would have to be cut severely. Other counties are anticipating similar challenges as they look ahead to the next budget cycle.

A slow down

The prevailing assessment is that the U.S. economy has slowed, and is currently in, or at risk of, a recession. Estimates of gross domestic product (GDP) do indicate a slowdown, though not yet a clear indication of a national level recession. The Bureau of Economic Analysis (BEA) estimates that real⁸ GDP grew 2.2 percent from 2006 to 2007. In the last quarter of 2007 and the first quarter of 2008, annualized rates of growth were 0.6 percent and 1.0 percent respectively. Growth rates vary regionally, though. Looking at particular regions, from 2006 to 2007, real GDP growth was negative in Delaware, Michigan and New Hampshire according to BEA estimates. In contrast, growth was positive and above four percent in Oklahoma, Texas, Washington, the District of Columbia, New York and Utah.

⁵ For an interesting discussion of local governments' fiscal options during a recession, see Orszag and Stiglitz (2001).

⁶ For analysis of early state reactions to the recession in 1991, see Gold and Richie (1991). The authors found a mix of actions to cut spending, or alternatively support local governments.

⁷ See Bondi (2008). The county entered the 2008 budget cycle with a surplus, but the executive expressed concern about the impacts of a potential recession and foreclosures.

⁸ Economists adjust for inflation when calculating real GDP. In contrast, nominal GDP is reported in the current year's dollars.

¹ See Johnson (2007).

² See Hillsborough (2006).

³ See Census (2005).

⁴ See Census (2005).

Trends look more recessionary for some sectors and groups. In line with housing market difficulties discussed below, investment expenditures on new⁹ residential housing declined in both 2006 and 2007. Labor market trends also present significant challenges ahead. Total non-farm payroll employment declined in each consecutive month from January to June 2008, according to the Bureau of Labor Statistics. The latest employment figures add to the concerns already raised by troubled housing markets.

Housing market instability and foreclosures

Numbers tracked by the National Association of Realtors (NAR), the Mortgage Bankers Association (MBA), the U.S. Bureau of Census and several other financial and housing sector institutions illustrate an underlying instability in housing markets. Consider the following items.

- Housing starts¹⁰ for one-family units declined by 28.6 percent from 2006 to 2007. Housing starts for buildings with 2 units or more declined 8 percent. Numbers in both of the categories also decreased from 2005 to 2006.¹¹
- U.S. home prices fell three percent from January 2007 to the same month in 2008, according to OFHEO data.¹²
- The number of sales of existing homes declined 23 percent, and the number of monthly sales of new homes declined 34 percent, from January 2007 to January 2008, according to NAR.
- More than 2.2 million foreclosure filings were logged against 1.3 million properties nationwide in 2007, according to RealtyTrac¹³.
- The seasonally adjusted delinquency rate for mortgages on one-to-four-unit residential properties stood at 5.82 percent of all loans outstanding in the fourth quarter of 2007 and then 6.35 percent for the first quarter of 2008, according to the MBA. These are record rates.
- The percentage of loans in the foreclosure process was 2.04 percent of all loans outstanding at the end of the fourth quarter of 2007, according to the MBA. The percentage increased to 2.47 percent in the first quarter of 2008.
- For the last quarter of 2007, the rate of foreclosure starts and the percent of loans in the process of foreclosure were at their highest levels ever, according to MBA.¹⁴
- Home equity – the value of the properties minus the mortgages against them – has fallen below 50 percent for the

9 See BEA; the residential component of real gross private domestic investment showed negative growth at -4.6 percent in 2006 and -17.0 percent in 2007.

10 The number of residential building construction projects begun during a specific period of time.

11 See Census (2008).

12 See OFHEO (March 25, 2008); based on purchase prices of houses with mortgages that have been sold to or guaranteed by Fannie Mae or Freddie Mac.

13 See RealtyTrac (January 29, 2008).

14 See MBA (March 6, 2008).

first time, according to the Federal Reserve¹⁵.

- The Congressional Joint Economic Committee recently estimated that 2 million Americans would lose their home in 2008 or 2009, according to Forbes.com¹⁶.

The above items illustrate problems in the housing and mortgage banking sectors as well as the significant impacts on many homeowners' ability to pay mortgages or maintain home equity.

Given counties' involvement with property transactions and sheriffs' sales, county officials will likely have quality access to local foreclosure information. Evaluation of recent and longer term foreclosure trends will aid county officials as they consider community solutions and weigh potential budget impacts.

Housing market challenges vary regionally

While real estate volatility and foreclosures have been in the national headlines, certain areas of the country have been more affected than others.

Shifts in home prices are one measure. Data released in February by the NAR comparing the 4th quarters of 2006 and 2007 show a general decline in existing U.S. median single-family home prices and median condominium prices. However, prices for these types of properties rose in about half the metro area markets tracked by the association.¹⁷

Table 1. Counties with high numbers of foreclosures and negative equity in 2007.

County	% of foreclosures with negative equity
Wayne County, Mich.	39%
Clark County, Nev.	24%
Maricopa County, Ariz.	18%
Riverside County, Calif.	19%
Los Angeles County, Calif.	16%

Source: Woolsey, Matt. 2008. America's hardest-hit foreclosure spots. *Forbes.com*. January 28.

15 See Bajaj (2008).

16 See Woolsey (2008).

17 See NAR (2008). See also Krauss and Nixon (February 15, 2008).

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As for foreclosures, according to the MBA, California and Florida accounted for 30 percent of foreclosure starts in the U.S. in the last quarter of 2007. The states of Michigan, Ohio and Indiana also had high starts.¹⁸ According to RealtyTrac¹⁹, the overall foreclosure rate for the 100 largest U.S. metro areas was 1.3 percent of households. However, the five metro areas in this group with the most foreclosures had rates above three percent. On the bottom end of the top 100, five metro areas had foreclosure rates below 0.2 percent of households.

Homeowners in regions or neighborhoods in declining markets may experience "negative equity" that in turn increases the likelihood of foreclosures. In this situation, houses are worth less than the amount that homeowners owe on their home loans. Forbes.com, using data from RealtyTrac, has highlighted counties experiencing foreclosures combined with negative equity as shown in the Table 1 above for 2007. For example, Forbes reported that, 39 percent of owners who foreclosed in Wayne County, Mich. held negative equity.

If there are county and state level differences and differences from year to year, economists have not fully identified why foreclosures are high in one area but not the other. Still, economists have studied mortgage industry practices, regional income trends and the extent to which homes in an area are appreciating or depreciating to find at least partial answers²⁰.

Changes in loan and mortgage practices

Several changes in loan practices have been identified as factors affecting foreclosure²¹. Foremost, subprime loans were offered to individuals who might not qualify for prime rate loans. In line with new practices, loans were also structured with more flexible interest rates, lower down-payment²² requirements, and combinations of standard mortgages with "piggy back" or secondary loans. Subprime lending increased dramatically, so that by 2006, these loans accounted for 20 percent of all one-to-four unit family mortgage originations²³.

Flexible loan options were offered through adjustable rate mortgage (ARM) loans that would be "reset" to become flexible after a three- or five-year period. Large numbers of these loans were reset in recent years as interest rates increased. A substantial number of loans - about 1.5 million - are scheduled to reset in 2008²⁴, which may result in balloons or higher payments for existing borrowers, depending on interest rate activity. Table 2, with data from MBA, shows that both prime and subprime ARM loans, though a smaller percentage of

loans outstanding, represent a large proportion of foreclosures started.

Table 2. Percent loans outstanding per type of loan, and foreclosure starts per type of loan (fourth quarter 2007).

	Percent of Loans Outstanding	Percent of Foreclosures Started
Prime Fixed	65%	18%
Prime ARM	1%	20%
Subprime Fixed	6%	1%
Subprime ARM	2%	42%
FHA	7%	1%

Source: MBA, 2008. Press release: Delinquencies and foreclosures increase in latest MBA national delinquency survey. Washington D.C.: Mortgage Bankers Association, National Delinquency Survey March 6.

Changes in loan and mortgage practices have combined with other developments in what might be called spillovers.

Spillovers, credit markets

Foreclosures on both prime and subprime mortgages have had a range of impacts on a variety of credit markets, some affecting local government. One way this happened is through "securitization," where banks or brokers re-package mortgages into financial instruments and sell them to investors. In turn, investors use the securities, or anticipated revenues from the securities, as collateral to make additional loans or investments. The increase in mortgage defaults has led rating agencies, such as Moody's, to reduce ratings on firms or funds holding larger amounts of the more risky mortgage-backed securities²⁵. In this way, foreclosure problems have spilled over into other credit markets that affect county governments in at least four ways.

First, county governments collect revenues from taxes and other sources and hold reserves during the budget year as periodic budget allocations are made. For example, property tax revenues may be collected at once, but county employees are paid every month. To increase revenues, county treasurers often invest reserve funds in local banks or in local government "investment pools" often run by their state government. A pool's investments may be affected by an economic slowdown, and a small²⁶ number of pools with investments in mortgage-backed securities have experienced problems. Notably, Florida local governments' access to funds was dis-

18 See MBA (March 6, 2008).

19 See RealtyTrac (February 13, 2008).

20 McGranahan (2007).

21 See Gerardi and coauthors (2007).

22 The median down payment on a home was 9 percent in 2007, down from 20 percent in 1989; see Leland (February 29, 2008), citing a survey by the National Association of Realtors.

23 See Bernanke (2008), citing Inside Mortgage Finance.

24 See Bernanke (2008).

25 See Wong (2007).

26 See S&P (2007).

rupted²⁷ when the state froze withdrawals from its pool in late 2007. The action was in response to rapid withdrawals made by local governments that had become concerned about the investment pool's exposure to risks related to subprime mortgage securities or "distressed assets"²⁸. This example illustrates that county government liquidity and revenues can be affected in surprising ways by information about an investment pool's portfolio.

Second, the ratings of bond insurers influence local governments' ability to sell bonds, which are often insured before sale. However, rating institutions have considered downgrading several major bond insurance companies due to exposure from mortgage-backed securities. As a consequence, the ability of local governments to issue bonds with the most secure ratings was called into question. If unable to obtain high ratings on bonds, local governments would be required to pay a higher return to offset the added risk to investors. In brief, the cost of issuing debt increases²⁹ adding to the cost-side of the county's budget ledger.

Third, and related to the second point, local governments have had difficulty issuing or financing debt, and they have been less able to obtain new funds or to refinance existing debt. Miami-Dade County³⁰, for example, faced the prospect of higher interest rates when its aviation department bonds failed to attract investors in the auction-rate securities market in March 2008. This type of security may have a term of up to 30 years, but interest rates are reset periodically at short term intervals. Typically, investors have the opportunity to sell this type of security at each auction. When an auction fails however, current investors are unable to sell. But, they do receive a higher rate of interest from the local government.³¹ In the Miami-Dade case, some of the auction rate securities were to be insured by bond insurance companies. But these bond insurance companies' own ratings were under review. With that and the tightening of credit markets, investors declined to buy the securities. So, in the short term, the local government had to accept higher debt financing costs.³²

Finally, troubled credit markets affect retailers. Commercial-retail sales vary dramatically from season to season, and retailers depend on short term loans to fill inventories during the year. The slowdown, coupled with credit market trends, has caused lenders to withhold loans or increase interest rates in certain areas of the country. This situation increases operating costs and may add to the number of store closures that occur in the retail sector. Due to the trends, the International Council of Shopping Centers is projecting an increase in store closings relative to 2007³³. The projection raises questions about a spillover to yet another sector.

27 See Murakami (December 4, 2007); see also S&P (2007); and see SBA (2008).

28 See Sink (December 10, 2007).

29 See Byers (February 11, 2008).

30 See Ortiz (March 6, 2008).

31 See Smith (February 25, 2008).

32 See Levy (March 31, 2008).

33 Barbat (April 15, 2008).

Higher lending costs, disruptions in liquidity or lower returns from investment pools all generate budgetary challenges. With all the other emerging constraints on local government revenue, the tightening of credit markets could not be less timely.

Spillovers, foreclosures and local revenue

The effect of foreclosures on property taxes is fairly direct. First, distressed borrowers may stop paying taxes, and foreclosures that lead to demolition may result in properties being removed from the tax base altogether. Second, research shows that foreclosures affect neighboring properties. For example, in a case study focused on Chicago using data from the end of the last decade, analysts³⁴ found that "a conventional foreclosure within an eighth of a mile of a single-family home results in a decline of 0.9 percent in value." As property values are reassessed in communities with declining housing markets, property tax revenues also decrease.

Other county revenue streams will also be affected. A reduction in wealth among homeowners will cause them to reduce consumption; local businesses will have lower sales; and counties with sales taxes will collect less revenue. To the extent that counties operate utilities or collect fees for water, gas or electricity services, revenues may also decline.

Spillovers, new costs and expenditures for local government

An economic slowdown coupled with foreclosure activity affects more than just revenues. County governments affected by foreclosures will increase expenditures on prevention programs, property maintenance and legal resolution. In an economic downturn, demand for social services also increases.

A study³⁵ of foreclosures' impact on the City of Chicago and Cook County provides a sense of associated local expenditures. Researchers from the Home Preservation Foundation (HPF) found that the foreclosure process involved coordination of more than a dozen city and county agencies. New expenses arose from policing and fire suppression, demolition contracts, building inspections, legal fees, and recordkeeping expenses associated with managing the foreclosure process. Even after the foreclosures occurred, costs mounted with the responsibility for securing and/or demolishing housing units, and for maintaining yards or clearing trash. Finally, police noted in interviews that abandoned properties had to be monitored for signs of gangs, drug dealing and other criminal³⁶ activity. The HPF study established several local government cost scenarios for the city of Chicago as shown in Table 3. While the numbers will vary from community to community, county governments may use the cost scenarios

34 See Immergluck and Smith (2006).

35 Appar and Dada (2005).

36 See Immergluck and Smith (2006) for citations on a relationship between foreclosure and violent crime.

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as a starting point to generate local cost estimates. Table 1a in the appendix shows the particular line item costs that were used in scenario calculations.

Table 3. Foreclosure cost scenarios in the city of Chicago

Scenario	Net Costs
Vacant and secured properties municipal cost	\$450
Vacant and unsecured properties municipal cost	\$5,356
Vacant, unsecured properties tracked for delinquent municipal cost	\$13,952
Properties abandoned before foreclosure is completed	\$19,227
Abandoned properties damaged by fire, municipal cost	\$34,199

A Home Preservation Foundation study established the following local government cost scenarios of foreclosures using Chicago and Cook County budget and administrative data for 2003 and 2004. Source: Appa, Wilson C. and Duda, Mark. 2005. Collateral damage: the municipal impact of today's mortgage foreclosure boom. Minneapolis, Minn.: Homeownership Preservation Foundation. May 11.

A different set of expenditures relate to social services. Foreclosures combined with homelessness clearly affect counties that work with shelters, food banks and provide services to children. Many renters and owners evicted from foreclosed properties will face substantial moving costs and possibly higher rent situations. Others will move in with friends or family or become homeless. First Focus, a children's advocacy group estimates that 2 million children will be directly affected by foreclosures. The estimate suggests substantial disruptions for a range of public services such as shelters and schools³⁷. Inadequate resources to attend to these disruptions will in turn have long term consequences and generate long term costs for affected communities.

A slowdown or recession also has implications for social services. As an example, Putnam County New York's executive observed in his 2008 state of the county speech³⁸ that, during the 1991 recession, Home Relief case loads more than doubled, and Aid to Families with Dependent Children increased from 166 to 281 families³⁹. In 2008, the county estimated that costs for its "Safety Net" program would increase by \$324,000 before any cost-shifting that might occur as a result of proposed changes to the state government's budget. Putnam county also projected a \$71,000 increase in expendi-

tures for Temporary Assistance for Needy Families (TANF), again, before any cost shifting by the state. These elements of Putnam County's program history and its projections illustrate the pressures of an economic slowdown on county social service systems.

Other analysis is helpful in projecting impacts of unemployment on health programs. A Kaiser Foundation⁴⁰ study focused on healthcare indicates that a one percent increase in the unemployment rate would drive up enrollment in Medicaid and SCHIP by one million non-elderly adults and children. The same rise in unemployment would also increase the number of uninsured by 1.1 million people. As counties have a role in health care delivery and finance in the majority of states, these effects of an increase in unemployment would add new costs and responsibilities for counties.

The U.S. poverty rate in 2006 was 12.3 percent,⁴¹ which is higher than in 2001 when many state and local governments also faced significant budget pressures. These poverty figures suggest that state and local governments may be less able to confront the emerging budget situation with all the spillovers from the troubled housing and mortgage sectors.

Pressures on county social services:

A Kaiser Foundation study estimates that a one percent increase in unemployment will increase the number of uninsured by 1.1 million people.

Local responses, adjusting budgets

Depending on when financial difficulties arise, pressures may affect the current operating budget, a proposed budget for the next fiscal year, or several budget cycles down the line. A slowdown that affects constituents' income is likely to affect fees and/or sales taxes in both the immediate and the longer term since residents will decrease use of utilities and retail consumption. On the other hand, changes in property values will have a lagged affect on property tax revenues. This occurs since property tax assessments are readjusted periodically with the timing varying from county to county. When assessed values change and revenue shortfalls or surpluses become apparent, county officials respond to imbalances.

In a recent budget address, the mayor⁴² of the Lexington-Fayette Urban County Government noted that there are "three ways to solve such a problem: increase revenue, decrease expenses, or some combination of the two." A NACo Research Division scan⁴³ of recent media reports of counties facing budget shortfalls also shows counties taking steps along these lines. In terms of reducing expenditures, the media reports

37 See Armour (June 25, 2008) and Lovell and Issacs (2008).

38 See Bondi (2008).

39 The county population was roughly 84,000 in 1990; in 2005 it had increased to about 102,000.

40 See Dorn and co-authors (2008).

41 See Census (2008a).

42 See Newberry (2008).

43 See NACo (March 24, 2008).

provided examples of counties proposing or adopting the following strategies:

- salary and wage freezes;
- reductions in overtime allocations;
- hiring freezes;
- postponement of recruitment for new or vacant positions;
- postponement of cost of living increases;
- early retirement programs;
- layoffs;
- departmental spending cuts;
- departmental reorganization;
- service reductions, such as reducing library hours or jail visitation hours;
- postponement of capital spending for projects without external support; and
- deferred maintenance.

Pressures on county social services:
First Focus, a children's advocacy group estimates that 2 million children will be directly affected by foreclosures.

As for increasing revenues, the scan of news reports provided examples of counties proposing or adopting the following strategies:

- increasing fees (e.g. sewer, water, garbage fees, recreation programs);
- passing a levy to support a particular county service (e.g. swimming pools);
- increasing property tax rates on residential and/or commercial properties;
- increasing income tax rates;
- increasing the sales tax rate or utility rates;
- selling assets (e.g. nursing home); and
- pursuing supplementary funds such as tobacco settlement monies.

Some county governments have also invited public or expert panels to weigh-in on choices. In response to 2008 budget difficulties, Shelby County, Tenn. and Macomb County, Mich. each held meetings to allow for input and recommendations on strategies and options for cost-savings⁴⁴.

With or without this kind of public discussion, county governments face tough choices. Reducing spending on social services, education, infrastructure, or on maintenance of current capital assets may have negative consequences for the economic environment that influences long term quality of life and a county's fiscal health. Other tough choices relate to

⁴⁴ See Meek (February 22, 2008) and Selweski (March 19, 2008).

how counties will deal with the fallout from the housing and mortgage markets. County strategies are evolving.

Some local responses to foreclosures

Many county governments are establishing or reinforcing initiatives to prevent current foreclosures and to reform the foreclosure process to affect future trends. In addition, absorbing vacant and foreclosed properties into low income or workforce housing inventories has also found a place on county officials' agendas.

Prevention initiatives make use of the significant information resources and communications capacity of county governments and their community partners. County recorders, with access to property databases and foreclosure filings, are in a position to alert homeowners of certain risks. For example, a county recorder in Montgomery County, Ohio has taken steps to identify the most active subprime lenders in the county and alert their customers of potential problems before interest rates are reset⁴⁵. A Hennepin County, Minn. foreclosure task force similarly recommended⁴⁶ contributing data to the Minneapolis "Early Warning System." More broadly, Minnesota state legislators are exploring options for a statewide database to compile city and county foreclosure information⁴⁷. While privacy issues are a concern, better access to information could lead to more timely application of prevention initiatives.

General counseling, referral services and hotlines have also been among the tools adopted by state and county partnerships. As examples, Dakota County, Minn., Washtenaw County, Mich., Lucas County, Ohio and Summit County, Ohio provide information either directly or through community partners on some or more of the following:

- credit counseling options;
- loan modification options;
- tactics to avoid predatory lending;
- residents' rights after a sheriff's sale;
- foreclosure redemption periods;
- state, county and federal financing programs; and
- county delinquent tax assistance and installment programs.

Counties are largely limited in their authority⁴⁸ to require changes in mortgage practices of lenders and brokers in their communities. Nevertheless, prevention programs and creative uses of property information may have an effect on local outcomes.

⁴⁵ See Greenblatt (2008).

⁴⁶ See Hennepin (2008).

⁴⁷ See Crump (2008).

⁴⁸ Counties do have the option to participate in state level reform coalitions, however. Several states have adopted legislation in response to the rise in foreclosures. See for example, HF1004 adopted by Minnesota Legislators in 2007 or Ohio's SB 185 also enacted in 2007.

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In addition, streamlining and reforming the foreclosure process has been a priority for counties such as Ohio's Cuyahoga. A commissioners' report⁴⁹ written in 2005 includes the following strategies:

- early intervention programs;
- counseling assistance to families in default;
- targeted assistance and support of non-profits in hotspot areas;
- redevelopment through blight prevention initiatives;
- priority processing of vacant properties in court dockets;
- streamlining foreclosure hearings;
- adding staff in the clerk of courts office;
- increasing staff and equipment in the sheriff's office for related tasks;
- augmenting the surcharge on foreclosure proceedings to offset costs;
- increasing education around and prosecution of related fraud; and
- lobbying for state legislation affecting county government responses to foreclosures and abandoned properties.

The commissioners have since established several partnerships based on their earlier recommendations.⁵⁰

Other policy alternatives are geared toward filling vacant properties subsequent to foreclosure. These include a range of acquisition proposals with goals focused on community stability, workforce housing and low-income housing.

Land banks are one option. For example, Wayne County, Mich. runs a land bank that acquires and resells vacant properties, as well as foreclosed and criminally seized homes. Working with partners, the county resells the homes to residents within six months, and any revenues generated go to fund foreclosure prevention programs for county residents⁵¹.

In the past several years, counties with high value real estate have also studied workforce-housing problems. For instance,

Placer County Calif. performed community surveys⁵² in 2005 to identify income-housing gaps for several categories of public employees. The income gap measured for teachers – with a starting salary of \$34,000, but facing a median home price of \$420,000 dollars – was \$89,000. The calculation for a new sheriff's dispatcher revealed a similar gap.

Fairfax County, Va. and Montgomery County, Md. have also both struggled with housing affordability generally and with workforce housing. There are proposals among Fairfax supervisors and Montgomery commissioners to purchase and then sell foreclosed properties as affordable units⁵³. In Wayne County, foreclosures are numerous, and local governments there are actively seeking to acquire foreclosed properties and provide incentives for local government employees to live within local jurisdictions. The county and its local jurisdictions are cooperating with HUD to respond to foreclosure problems in this way.

Conclusion

Current instability in housing markets and the threat of a slowdown have led to challenges for many county budget makers. The threats have the potential to affect all sources of county revenue as well as a county's ability to issue debt for capital projects. The combination of troubled housing markets and a recession would reduce resources available to counties when they are most needed. Counties provide numerous social, environmental and community services. In hard economic times, demand for social services such as aid to foster care children as well as health care for children, the elderly and the indigent is likely to increase. Many counties are grappling with challenges associated with foreclosures and associated costs. Dialogue among county, state and federal officials is essential to plan combined strategies and an appropriate federal fiscal policy response.

49 See Cuyahoga (2005).

50 See the Website: www.donborrowtroublecc.org.

51 See Gray (April 13, 2008).

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53 See Gardner (March 29, 2008); see Miller (April 2, 2008).

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Appendix

Table 1a. Net Foreclosure-Related Municipal Costs in Chicago

1	Declarations Filing Recorder of Deeds	\$213
2	Operate Chancery Court Multiple County Agencies	\$543
3	Register Sale and New Owner Records of Deeds	\$513
4	Delegate Agency Foreclosure Prevention Funding Dept. of Administrative Hearings (DOAH)	\$96
5	Vacancy Intake Department of Buildings (DOB) and Claims	\$3
6	Building Inspections DOB	\$364
7	Maintain Vacant Building Registry DOB	\$76
8	Serving Notice to Secure Department of Law (DOL) and Sheriff	\$715
9	Boarding Lien Issuance DOB, DOL	\$1,445
10	Prepare Case for Administrative Hearing UOF	\$2,690
11	Administer DOAH UOF	\$75
12	Prepare Housing Court Case DOL	\$4,203
13	Administer Housing Court Multiple County Agencies	\$228
14	Police Call Police Department	\$315
15	Police Make Arrests Police Department	\$380
16	Initial Notice of Demolition DOB	\$165
17	Notice of Impending Demolition DOB	\$25
18	Demolition by Contractor, Lien Issued DOB, DOL	\$6,000
19	Property Tax Losses from Demolition n/a	\$1,305
20	Prepare and Try Demo Case DOL, DOB	\$5,384
21	Administer Demo Court Multiple County Agencies	\$228
22	Unpaid Property Tax Losses n/a	\$506
23	Unpaid Utility Tax Losses n/a	\$51
24	Unpaid Water Usage Water Department	\$167
25	Mow Lawn/Remove Trash Department of Streets and Sanitation	\$1,000
26	Fire Suppression Fire Department	\$14,020

These net costs are specific to Chicago and Cook County. To assess costs that arise from the foreclosure process in Chicago, the Home Preservation Foundation used Chicago and Cook County budget and administrative data for 2003 and 2004. Estimates for 76 foreclosure-related activities are listed above in this table. The costs are net of funds recovered for foreclosure-related services. Source: Appat, William C. and Duda, Mark. 2005. Collateral Damage: The Municipal Impact of Today's Mortgage Foreclosure Boom. Minneapolis, Minn.: Homeownership Preservation Foundation, May 11.



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Subcommittee on Housing and Community Opportunity
January 23, 2010 hearing: "The Impact of the Foreclosure Crisis on Public and Affordable
Housing in the Twin Cities"
Written Testimony from Mr. Marlon Anderson, Constituent

Thank you, Madame Chairwoman and Members of the Subcommittee, for inviting me to testify about my experience as a renter affected by foreclosure. My name is Marion Anderson and for over a year my life has been affected by the foreclosure at my rental unit.

In November 2008, I signed a one year lease on a 2-bedroom apartment, in a four-plex in North Minneapolis. What I didn't know at the time was that my landlord was in the early stages of foreclosure. In fact, my landlord had 2 mortgages on the property, and both have gone into foreclosure. One sheriff's sale was in August, 2009 and the other in September, 2009. In addition, my landlord had filed for bankruptcy.

Our first suspicion that something was wrong was when about four months into our lease, February, 2009, our landlord started taking appliances out of the property without any explanation. The first things to go were the washer and dryer out of the basement. There were rumors among the tenants that the building was in foreclosure.

The next month we started getting utility shut off notices at our building. In our original lease, the utilities were to be paid by the landlord. The next month, April, the building was posted by the city for lack of utilities but the landlord was still asking for rent and not addressing the utilities issues.

The remaining tenants organized, contacted the utility companies, and paid to keep the utilities on. On April 15th, our landlord came by the property and manually turned off the furnace.

From April to July we had no contact from our landlord. In July our landlord showed up at the property and threatened us with evictions for non-payment of rent. At this point we were no longer paying rent, but were paying all the utilities ourselves. We had already received numerous water and gas shut-off notices. She stripped the basement of appliances, and never showed up again.

In August, the fire inspector came to our property and put up two notices. One gave us 72 hours to get the furnace turned on, or the property would be condemned. The second notice gave us until January, 1, 2010, to get a rental license on the property, or it would be condemned.

The tenants were able to get the furnace turned back on by paying current charges forward. I contacted Legal Aid who helped us with the rental license issue. Legal Aid tried to get the City of Minneapolis to allow the tenants in our building to pay for the rental license so that we could stay there throughout the redemption period. Legal Aid then connected me to St. Stephen's and their assistance program for renters who are affected by foreclosure.

Since we found out the property has been in foreclosure, we have dealt with numerous utility shut-off notices. The old building manager left his unit, and some of his family moved into the vacant unit. Another unit of tenants who were receiving Section 8 moved out of the building once Section 8 found

out about the foreclosure. These tenants left and allowed some friends and family to use their unit. There have been 3-4 squatters in vacant units and in the basement, which does not have a secured door. It has been hard or impossible to get the squatters to contribute to the utilities.

The squatters have brought other problems to the building too. The police were called out last week to the property to take out one of the squatters, who was a threat to others. The fire inspector came to the building again and told us one unit was at risk of being condemned for suspected meth use and production. In addition, there are rumors of prostitution going on in the basement of our building.

From March to December 28, 2009, our building had virtually no management or ownership. This has created an unsafe environment for the remaining tenants. There is no accountability and we have no one to address our safety, utility, or maintenance concerns.

As of December 28, 2009, a new owner has turned up. He apparently purchased the property from the foreclosing bank on the first mortgage. He did get a rental license on the property, so it was not condemned on January 1, 2010. But he is also requesting \$200 more per month in rent for the units than our original leases, and, so far, is not offering the remaining tenants new leases.

In addition to the foreclosure problems at my apartment, I have been laid off twice in the past year. I am working with a job program, but so far, have only been able to find part-time employment. At my current income there is nothing comparable for rent in the area. I feel like the new owner is pricing the current tenants out of the building. If I have to move, most places want a security deposit, first and last month rent. With Emergency Assistance in Minneapolis getting cut for single adults this year, I have few options.

The whole experience has been very stressful. I have an apartment full of stuff and have often thought that I had 24-72 hours before I'd be out on the street. I am being displaced, and not by choice. When you sign a lease, you expect to be able to comfortably stay in the apartment for the duration of that lease. You do not plan to have to move during a Minnesota winter. In this situation, a tenant must have the wherewithal to follow up with everyone and stay on it. Many people don't, and it is easy to end up in shelter when you experience foreclosure. There are times that I worried that I would end up at Harbor Lights (Salvation Army shelter) but so far, I have been able to stay in my apartment.

For me, I think employment is the key to stability, security, and self-esteem. Even to be able to afford affordable housing, you have got to be working. With many jobs no longer available it is hard to sustain a living wage and a decent place to live. It is a vicious cycle. I have been able to work with many organizations on my housing and employment issues: Legal Aid, MN Workforce Center, HIRED, St. Stephen's, and Minneapolis Urban League. You need to get connected to the right places and get referred to different places for different services. Without the non-profit network in Minnesota, I probably would have ended up in shelter.



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**Testimony on the Impact of the Foreclosure Crisis
 on Public and Affordable Housing in the Twin Cities
 before the House Committee on Financial Services
 Subcommittee on Housing and Community Opportunity
 by
 Daniel M. Bartholomay, Commissioner
 Minnesota Housing Finance Agency**

January 23, 2010

Madam Chair, Representative Ellison, and members of the Subcommittee, I am Dan Bartholomay, Commissioner of the Minnesota Housing Finance Agency (Minnesota Housing). I am thankful for the opportunity to testify today about Minnesota Housing's mission, resources, the impact of foreclosures on the housing bond market, and how the federal government can further assist states in addressing the crisis.

Mission

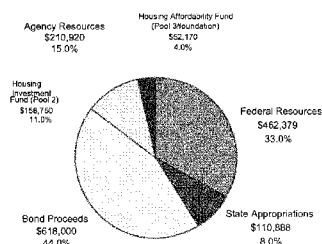
Minnesota Housing is a state agency that serves as the state's affordable housing financial institution. It is not a regulator or an owner/operator of affordable housing. The Agency is a leader in an alliance of government, private sector, non-profit and faith-based community interests working to affordably house Minnesotans.

It is Minnesota Housing's mission to advance affordable housing opportunities for low and moderate-income Minnesotans to enhance quality of life and foster strong communities. Since its inception in 1971, Minnesota Housing has invested more than \$8.7 Billion and assisted more than 750,000 households.

Funding Sources and Uses

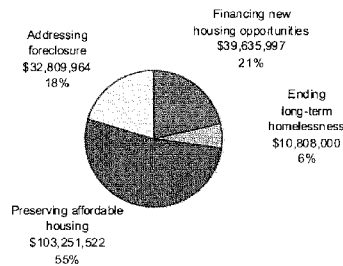
Over the 2010-2011 biennium, Minnesota Housing will advance its mission by investing \$1.4 billion of federal, state, and agency-generated funds to finance new affordable housing opportunities, preserve existing affordable housing, end long-term homelessness, and address foreclosures. The chart below shows the amount of resources by source that Minnesota Housing anticipates being available to it in the 2010-2011 biennium.

**Affordable Housing Plan 2010-2011 program resources
 new activity, in thousands and percentages**



A large portion of Minnesota Housing's resources, especially federal resources, are limited in their use, project-based Section 8 rent subsidy, for example. The Agency will allocate its discretionary funding as described in the chart below.

**Estimated distribution of discretionary 2010-2011
Plan resources (\$1.8 billion) by strategic priority**



Addressing foreclosures constitutes 18% of the Agency's discretionary funding, a level of commitment that is not apparent in the allocation of all discretionary and nondiscretionary resources. However, even 18% under-represents the total foreclosure response effort as it does not include the portion of funds allocated to financing new housing opportunities that will be used to assist the purchase of foreclosed homes.

Minnesota Housing's Neighborhood Stabilization Efforts

In 2008, Minnesota Housing awarded \$11 million of state and Agency resources for acquisition, rehabilitation, and resale of foreclosed properties on Minneapolis' north side: \$10 million as a loan and \$1 million as a grant. The agency also awarded a \$500,000 grant to St. Paul for the same purpose. The goal is to stabilize these neighborhoods before they deteriorate further.

The \$11 million for Minneapolis' north side has been expended and almost \$5 million recycled to acquire additional properties. In 2008 alone there were 3,185 sheriff sales. Even with 184 properties acquired and 57 rehabilitated and sold to homeowners under this \$11 million Agency initiative, the required scale of effort is clear. Increasing its commitment, the Agency has provided an additional \$10 million in loan funding for the Twin Cities Community Land Bank which is helping NSP1 developers to acquire bank-owned properties before they are released to the general market.

Minnesota Housing devoted still more of its resources to address foreclosures, including Mortgage Revenue Bonds and downpayment assistance for the purchase of foreclosed homes. Downpayment assistance is provided through the HOME Investment Partnerships Program. The Agency has allocated over \$9 million of HOME for this activity over the 2010-2011 biennium. We anticipate 45% of the downpayment assistance, in combination with low-interest rate mortgages of \$106 million, will help 900 first-time homebuyers purchase foreclosed homes. Since the beginning of the HOME downpayment assistance program in June 2008, 306 single family homebuyers have either received or have commitments of downpayment assistance to buy foreclosed homes.

With passage of HERA, Congress stepped up and provided Minnesota Housing \$38.8 Million of Neighborhood Stabilization funds to help address the impact of foreclosures. Minnesota Housing

sub granted its NSP1 funds to 21 communities for use in areas of greatest need throughout Minnesota. To date, approximately 164 units of housing have been addressed in Minnesota Housing's NSP1 program and used 32.8% of the funds.

Federal resources are substantial, with the Neighborhood Stabilization Program being a key component of the state's response to the foreclosure crisis. From the beginning, Minnesota Housing wanted to maximize the impact of NSP on areas of greatest need by tightly targeting the funds to those areas, giving preference for localities that brought other resources to the table to address the other needs of the areas, and by implementing Green rehabilitation standards.

The Agency originally anticipated addressing 700 housing units with NSP, but final production numbers will be less due to higher than anticipated costs. Costs are higher for a number of reasons, including the inability of homeowners and local governments to compete on equal footing with private investors due to certain federal compliance requirements, thereby limiting the pool from which they can purchase homes to houses that require more rehabilitation. We believe these requirements could be temporarily changed without harming the goals of the underlying statutes and hope that Congress can consider such action.

Private investors are able to avoid the requirements that NSP-assisted buyers can not. To meet the requirements of the Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA) and National Environmental Policy Act, offers on foreclosed houses in the NSP program must usually be made contingent on the property being appraised at a certain value before a final offer can be made, and passing an environmental review. When competing for foreclosed properties with investors who are not obligated to comply with those requirements, potential buyers are at a great disadvantage. In response, many of our subrecipients have modified their programs and moved from relatively inexpensive downpayment assistance, to a purchase/acquisition/resale model.

While the return of private investors brings large amounts of investment into an area, we are concerned that they may not take actions that support the housing and help stabilize the neighborhood. For example, they are not required to bring their acquired properties up to standard condition and, unlike NSP- or HOME-assisted homebuyers, investors are not required to make the housing available for use by low- and moderate-income households, raising the risk of future problems with those properties.

Over time, individual markets and the nature of challenges faced by subrecipients have changed. Minnesota's NSP program will continue to evolve to meet changing conditions.

Foreclosure prevention counseling has been an important element in preventing foreclosures with Minnesota Housing receiving over \$9.6 million of foreclosure prevention counseling funds from NeighborWorks since 2008. Minnesota Housing has allocated over \$3.3 Million of State funds for foreclosure prevention counseling since 2007.

Since March of 2008, over 25,100 households have received foreclosure prevention counseling, and 10,793 foreclosures have been prevented or 54% of closed cases.

Impact of Foreclosure Crisis on Bond Market

The genesis of the foreclosure crisis is widely known, but its impact on the bond markets less so. Access to capital in the bond market is critical for financing affordable housing, so turmoil in the market has a significant negative impact on HFAs' ability to meet their missions. It is important

to note that Minnesota Housing and other HFAs did not participate in the exotic mortgage-making practices of so many others. As a result, their portfolios have fared better compared to other lending institutions. Minnesota Housing foreclosure rate is typically less than 70% of the Mortgage Bankers Association member rates for Minnesota. Despite this performance, the market did not differentiate between predatory and subprime mortgages and HFA mortgages.

The foreclosure crisis drove bond investors away for at least two reasons: (a) the disintegration of the sub-prime mortgage portfolio was generalized to all mortgages because investors either were not able to differentiate between sub-prime mortgages and healthy mortgages or they didn't trust the information that would have enabled them to do so; thus, housing bonds, generally, were "tainted" and some corporate investors went so far as to prohibit the purchase of any housing-related bonds, regardless of credit ratings; (b) declining profits due to mortgage-related losses meant investors had less money to invest. Fewer investors meant the supply of housing bonds was greater than demand for them, driving yields on housing bonds higher.

Prior to federal intervention in the broader mortgage market, higher yields on housing bonds meant that public issuers of housing bonds were borrowing at higher rates and either had to pass the added cost along to borrowers or take little or no profit margin. During some portions of late 2008 and early 2009, yields on housing bonds were so high as to make debt issuance infeasible altogether, effectively shutting down lending by public entities.

Matters worsened for HFAs once the federal government intervened to subsidize the broader housing market by purchasing mortgages at artificially low (i.e. not market-driven) interest rates, but did not extend that benefit to public housing bond issuers. HFAs and local housing issuers were left to cope with the full force of an unassisted market. Market interest rates for housing bonds resulted in mortgage rates in excess of those offered by the federally assisted commercial mortgage market. Households that borrowed from HFAs did so at higher interest rates than were available from the commercial mortgage market solely to access down-payment assistance.

The most powerful tool available to HFAs – the tax-exemption of the mortgage revenue bond – lost its value when forced to compete with federal subsidy of commercial mortgage rates. As a result, many HFAs and virtually all local housing authorities ended their mortgage lending programs due to the gross inefficiency of the mortgage bond market. Potential borrowers, whose access to credit was already strained by broader economic forces, had lost yet another resource.

Throughout the crisis, Minnesota Housing was fortunate to maintain a reduced level of lending capacity due in part to careful management of its own liquidity and due also to the sheer luck of timing of certain bond transactions paired with careful management of certain tax-related tools (yield management). The following data illustrates the dramatic reduction in our ability to support of low- and moderate-income households as a result of the mortgage market crisis and the crippling of the bond market despite our continuously having mortgage funds available to lend:

	2006	2007	2008	2009
Loans Purchased during Fiscal Year (millions)	\$394	\$424	\$436	\$207

Effect of the crisis on Minnesota Housing's Ability to Support Low- and Moderate-Income Households

The recently implemented Treasury/HFA initiative will help to restore some of the lost lending capacity illustrated by the table above, which will improve earnings potential prospectively. This new one-year program will provide over \$275 Million from the purchase of Minnesota Housing's bonds for the financing of affordable homeownership and rental housing. However, Minnesota Housing has and will continue for some time to have fewer resources to support low- and moderate-income households due to two other factors:

- (1) A significantly reduced lending volume during 2009 has a long-term impact on our ability to internally generate resources for housing.
- (2) Losses in our existing loan portfolio due to the declining real estate values of foreclosed loans impaired our earnings in 2008 and 2009.

Both of these factors reduce our ability to provide housing assistance from internally-generated resources, which constitute 15% of all resources available to the Agency. These internally-generated resources are invaluable and allowed the Agency to allocate \$50 million to its initiative to end long-term homelessness. We estimate a reduction in our most flexible resources (Pool 3) of at least \$30 million. Half of this reduction was realized for fiscal 2009; the remainder is expected at the conclusion of fiscal 2010.

Additional Federal Resources

- I urge Congress to continue funding for foreclosure remediation. However, while additional resources would be very helpful, existing resources could more effectively and quickly move houses from the foreclosure inventory to homeownership with temporary waivers of statutory requirements regarding processes of the Uniform Relocation Assistance and Real Property Acquisition Policies Act (URA) (42 USC, Chapter 61) and the National Environmental Policy Act (42 USC, Chapter 55). These changes would permit final purchase offers to be made when acquiring foreclosed properties before completion of an appraisal and environmental review, putting the NSP purchaser on a more equal competitive position vis-a-vis investors.

- I urge Congress to continue providing funding for foreclosure prevention.

- Congress should explore new approaches to avoiding foreclosures. Even though Minnesota Housing's mortgage portfolio has performed well compared to other mortgages, foreclosure rates and delinquencies have increased over the past year due to general economic conditions of foreclosure and diminished equity, as they have for other mortgages.

The Agency's ability to provide assistance to avoid foreclosures due to reduced income is limited. The Agency's Homelessness Prevention Program allows for temporary assistance to be made available to families that are at risk of losing their housing from a number of causes, including foreclosure; but the funding is inadequate to sustain large numbers of households for long periods. Additional tools to help homeowners remain in their homes are needed.

Although Congress provided temporary authority in HERA to HFAs to use Mortgage Revenue Bond authority to refinance mortgages, Minnesota Housing and other lenders are not positioned to refinance loans to homeowners who may be capable of paying a new loan based on current values rather than what is owed. This situation is frustrating since relatively short-term assistance

to homeowners in certain circumstances to continue making loan payments during their economic troubles may be less costly to the homeowner, lender, and neighborhood in the long run than foreclosure. However, resources for such assistance are not available.

- Due to continued difficulties in the Low-Income Housing Tax Credit market, the Tax Credit Exchange program that permits States to exchange Low-Income Housing tax credits for grants from the Treasury needs to be extended to permit continued development of low-income housing to provide affordable housing for families, including those that have lost their housing through foreclosure.

Before closing, I would like to take this opportunity to thank you and the Congress in general for the support it has given states and local government by providing the resources it has over the last few years. The Tax Credit Exchange and Tax Credit Assistance Program have been essential to continue the development of affordable rental housing; and NSP 1 and 2 are invaluable to turn around foreclosure-impacted neighborhoods. We take pride in our partnership with the federal government, local government, and the private sector in providing and preserving affordable housing in Minnesota.

Thank you for the opportunity to address the Subcommittee on this important topic. I welcome any questions you may have.



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Testimony before the
House Financial Services Committee Subcommittee on Housing and Community Opportunity
regarding

"The Impact of the Foreclosure Crisis on Public and Affordable Housing in the Twin Cities"
23 January 2010

Testimony presented by Michael Dahl, Public Policy Director with HOME Line

Madame Chairwoman, Congressman Ellison, and Members of the Subcommittee, thank you for the opportunity to testify regarding the state of affordable housing in today's economy and the current housing market. My name is Michael Dahl, and I am the Public Policy Director for HOME Line. HOME Line provides free legal, organizing, education and advocacy services so that tenants throughout Minnesota can solve their own rental housing problems. We work to improve public and private policies relating to rental housing by involving affected tenants in the process.

As part of our work, we operate a statewide tenant hotline. HOME Line's Tenant Hotline provides renters with legal information about their tenant rights. The hotline has grown from serving suburban Hennepin County in 1992 to serving the whole state except Minneapolis, which continues to operate its own city-funded service. Last year, we took over 11,000 calls, setting an unfortunate record for the number of tenants that asked for our assistance.

As should be expected in today's market, the number of tenants calling us because they live in a property faced with foreclosure and do not know what to do has gone up ... way up. In 2000, we took 18 calls for all of Minnesota from tenants asking a question about foreclosure. In 2009, the number was 1265! Foreclosure now accounts for over 10% of all calls to our hotline. The problem in Congressional District 5 has been particularly acute. Last year, we received 273 calls from tenants faced with foreclosure issues in Congressman Ellison's district – a fourfold increase in just three years. The table below illustrates the increase in foreclosure calls HOME Line has received from individual cities in the 5th Congressional District from the last 3 years and compares the district totals to Minnesota overall:

Tenant Advocacy in Minnesota

Tenant Foreclosure Calls

	2007	2008	2009	Last 3 years
Columbia Heights	7	15	13	25
Crystal	2	3	14	19
Fort Snelling	0	0	0	0
Fridley	6	12	14	32
Golden Valley	3	5	2	10
Hilltop	0	0	0	0
Minneapolis	36	136	175	347
New Hope	3	9	14	25
Richfield	4	14	5	23
Robbinsdale	3	17	12	32
Saint Anthony	0	1	1	2
Saint Louis Park	4	11	23	38
All of District 5	68	223	273	564
All of Minnesota	427	1,082	1,265	2,774

Obviously, with the increased distress faced by renters who have no control over whether their home goes into foreclosure, we are so glad Congressman Ellison fought for and passed the Protecting Tenants at Foreclosure Act. Since the legislation went into effect on May 20, 2009, HOME Line's work has changed in a two important ways:

1. First, the tenants we advise receive more time to move. Prior to the change, a bank only needed to give a tenant 60 days notice to vacate. Now, a tenant is entitled to 90 days. The extra time is valuable because it gives tenants time to plan their lives. The extra time can be used to save up for the impending move. A tenant can wait for a rental property that fits their needs, not commit to the first thing that comes available. The extra time can be used to wait until the school year comes to a close or until a harsh winter ends.
2. Holding the new owner to the tenant's lease is a good change as well. When a property is transferred normally, the new owner steps into the shoes of the old owner. The new owner must respect the tenant's lease. That rule did not hold true for foreclosures. Making one rule for all property transfers makes the law constant and easier to understand.

For the last 2 years, foreclosure calls have made up about 10% of our call volume. It is the often the 4th most common reason people call. The increased call volume has shown no sign of abating. That is why it is unfortunate the Act is set to sunset in 2012.

HOME Line would recommend making the tenant protections in the Protecting Tenants at Foreclosure Act permanent. Let's take a look at Pamela Patterson as an example of why Congress should permanently extend the Act. Pamela Patterson is a low-income tenant on disability with a Section 8 voucher. She lives in Crystal. The sheriff's sale on the landlord was on 4/23/09. The redemption period expired (and bank purchased) on 10/23/09. The protections Congressman Ellison fought for went into effect 5/20/09, so there is a gray area

here about if she should have been protected. In any event, bank threatened her (and several neighbors) to be out by early November 2009. She complied, only because she found good housing nearby that would accept her Section 8. She is frustrated with the situation, since she was a good renter paying her rent on time and feels bad for some of her neighbors for their bad experiences too – they were not aware of the current tenant protections. Pamela is glad that 90-day protection is there now, but believes renters need more protections in these circumstances as it is no fault of theirs. HOME Line agreed with Pamela before the Act went into effect, agrees with her now, and thinks the same protections would be warranted beyond 2012. Permanently extend the Tenant Protections in Foreclosures Act.

More, however, must be done to alleviate the situation extremely low-income renters find themselves in.

That is why we agree with the recommendations from the Housing Preservation Project to make Neighborhood Stabilization (NSP) funds more flexible. Anything that can be done to turn vacant properties to good use right now would be helpful. I will let Mark Ireland address the issues in NSP.

I would like to focus the remainder of my remarks, instead, to broader needs regarding affordable housing. These are recommendations you would have heard from HOME Line with or without a foreclosure crisis. Why talk about such recommendations now, at a hearing about what to do for low-income renters and affordable housing in an environment awash in foreclosures? Because America's affordable housing need predates the foreclosure crisis. We have people on the Section 8 voucher waiting list that were on that waiting list five years ago ... as I said earlier, when HOME Line received on 47 calls from across Minnesota from tenants living in a property faced with a foreclosure. If we do nothing except address the foreclosure crisis this year, additional fundamental problems with the housing market will remain.

Someone needs rental assistance today. What will they find for help in the 5th Congressional District? They will find that all the lists are closed – the Minneapolis, Richfield, St. Louis Park, and Metro HRA Section 8 voucher lists all closed. Now, let's just say that person is *lucky* enough to need help on the day that one of these lists reopens. Some will apply to get on a waiting list that gives them the privilege of waiting another three to five years before even receiving a voucher. That is because a combined 17,000 people are ahead of them on the various HRA lists.

Unless we do two things – increase the supply of affordable housing and provide more rental assistance – we are going to continue to have a serious problem on our hands – with or without the foreclosure crisis.

1. Our nation needs to recommit to an affordable housing production program – something that has been sorely missing from America's affordable housing strategy for years. That is why we recommend Congress provide significant funding for the National Housing Trust Fund. To build, preserve, and rehabilitate 1.5 million homes affordable to low-income people over the next 10 years would require an investment of \$5 billion annually for the next 10 years.
 - a. As a first step towards that goal, we hope the United States Senate follows the House's lead and puts \$1 billion in the Jobs Bill to provide the initial funding for the National Housing Trust Fund.
 - b. As another step in the right direction, we hope the President includes at least \$1 billion for the National Housing Trust Fund in his FY 2011 budget. This is

something we are pleased Senator Al Franken has asked for as a co-signer on Senator Merkley's (D-OR) letter to the President.

- c. But these two steps are just partial, one-time steps towards our goal: \$5 billion annually for the next 10 years. Congress must identify ongoing funding to reach the goal.
2. We need more housing vouchers. Nothing will reduce the number of people waiting for help than actually funding more help for more people. Housing Choice Vouchers (rent assistance) help low-income renters bridge the gap between the cost of privately-owned apartments and their incomes. In 2008, 29,785 Minnesota families received vouchers. In Minnesota, 230,000 renter households live in housing they cannot afford. HOME Line has two recommendations for Congress regarding housing vouchers:
- a. Renters with housing choice vouchers should pay no more than 30% of their income for modest housing.
 - b. Congress must expand the HUD budget to fund vouchers for all eligible renters.

Madame Chairwoman, Congressman Ellison, and Members of the Subcommittee, thank you for the opportunity to speak to you. Please know that HOME Line will help you reach these goals.

State Rep. Jim Davnie

Testimony – Saturday, January 23, 2010

Subcommittee on Housing and Community Opportunity

Madam Chair, and members of the Committee, I am grateful to have the opportunity to speak with you today.

The foreclosure epidemic that has swept our nation over the last several years continues to infect our neighborhoods with fear, uncertainty, and injustice.

As elected officials at the state and federal levels, we have a shared responsibility to meet this crisis together. Wielding the full resources of the Minnesota and United States governments, we can and must stop the hemorrhaging trend of foreclosures that has already severely damaged our economy; a crisis that continues to strip hope from the lives of countless Minnesota families.

The foreclosure crisis has hit Minnesota hard, particularly the Minneapolis neighborhoods I represent. Between 2005 and 2007, over 38,000 mortgages were foreclosed in Minnesota. Another 28,000 homes were foreclosed in 2008. And last year alone, more than 35,000 Minnesota homes went into foreclosure. Homeowners lost \$7.8 billion in value in the Twin Cities metro area alone in 2009. And today, 15.5 percent of Minnesotans with a mortgage owe more than their home is worth.

Even though the writing was on the walls for years, the devastating outcome of a widely unregulated housing market were largely unforeseen – until it was too late. Since this crisis began, Minnesota has taken the lead in correcting the fundamental problems that caused it.

At the same time, we have been struggling with limited resources – like so many other states – to provide affordable housing opportunities for tens of thousands of homeowners displaced by the ongoing foreclosure crisis, and the nationwide economic recession.

Please discuss your efforts in the Minnesota House of Representatives in trying to address foreclosure prevention, and in trying to address the after-effects of the foreclosure crisis.

2007 Legislative Session

In 2007, the Minnesota Legislature focused heavily on addressing predatory lending and a wave of home foreclosures sweeping our state. Working with stakeholders from all parties, we created and passed an aggressive platform of smart, responsible foreclosure prevention bills that have set a national standard for homeowner protection.

A bill I authored in 2007 (HF1004) prohibited mortgage brokers from making loans to borrowers who have not demonstrated the ability to repay the loan and from refinancing mortgages to the detriment of the borrower. It also required mortgage brokers and lenders to accurately disclose the total monthly payment including taxes and insurance. Brokers in Minnesota are now required to act in the borrower's best interest when seeking out a loan rather than matching the borrower with the lender that gives the largest kickback to the broker.

Minnesota also enacted HF931, a bill that complemented HF1004 by creating criminal penalties and private rights of action against brokers who violate the law. It also prohibited prepayment penalties on subprime mortgages and required borrowers to receive financial counseling before refinancing an especially favorable mortgage.

Additionally, Minnesota passed HF1209 addressing the problem of “equity stripping.” In particular, the law closed several loopholes in the existing law (MS 325N) regarding the unscrupulous practice of taking advantage of homeowners facing foreclosure by stripping their home out from under them. Among other things, the bill:

1. Permitted homeowners to stay in their homes while they contest their evictions by their new landlords in housing court; and
2. Eliminated the ability by foreclosure “rescuers” to engage in one mortgage rescue before becoming subject to the law.

2008 Legislative Session

With a softening economy and new foreclosure-related problems coming to light, Legislators recognized that more needed to be done to provide economic relief to homeowners and tenants who faced losing their homes to foreclosure, and to protecting neighborhoods.

The 2008 Legislature passed a robust package of new foreclosure measures aimed at easing the economic fallout of foreclosure for homeowners, owners of mobile homes and renters. These measures included an increased emphasis on foreclosure prevention outreach in the early stages of foreclosure, regulating mortgage broker practices, strengthening the position of renters living in foreclosing properties, and new foreclosure rights for owners of mobile homes.

The Legislature also invested in new measures aimed at increasing the stock of affordable housing and building emergency shelters, and temporary or transitional housing units for those who were struggling with homelessness both short and long-term.

Many of the housing related bills introduced and heard during the 2008 Legislative Session were products of a seven-month working group process that began in June 2007. The bills represented consensus among stakeholders participating in the process including elected officials, government agencies, nonprofit organizations, Legal Aid, lenders, neighborhood groups and citizens.

A broad variety of changes in the law were passed to clarify and improve the fairness of foreclosure procedures for homeowners and renters. Most importantly, the law required the default notice to inform the borrower that foreclosure prevention counseling services are available, and inform them their loan has been provided to an authorized foreclosure counseling agency. In addition, the borrower is required to refer specified information to an agency and the agency must notify the lender if it is providing counseling services to the borrower (SF2912).

The hallmark initiative of 2008 was a bill I authored (SF3396) that could have helped save the homes of more than 12,000 Minnesotans facing foreclosure. The Minnesota Subprime Borrower Relief Act would have given homeowners facing foreclosure an opportunity to work out an arrangement with their lenders and keep their homes.

The explosion in foreclosures does not just harm the individual homeowners, but neighbors and the entire community as well. The Minnesota Subprime Borrower Relief Act was targeted for homeowners who took out a subprime mortgage prior to August 2007 and were committed to making monthly mortgage payments and receiving counseling to avoid foreclosure.

Those homeowners could have deferred their pending foreclosure up to a year or until the lender made a good faith offer to restructure the mortgage based on the borrower’s ability to pay. The purpose of the bill was simply to avoid foreclosures where possible.

Unfortunately the bill was vetoed. Just months later, America's financial industries collapsed, tens of thousands of Minnesota homes fell into foreclosure -- unnecessarily hurting families that could have kept their homes, and kept paying their mortgages, had SF3396 been signed into law.

2009 Legislative Session

The Legislature continued its commitment in 2009 to fighting the foreclosure crisis.

A provision (HF 2088) passed in 2009 provided significant relief for homeowners facing foreclosure. It allowed homeowners to postpone the foreclosure sale by five months as long as they agreed to shorten the redemption period (following the foreclosure sale) by the same amount of time. Lenders and homeowners both supported the bill, as the postponement gives homeowners greater opportunity to bring their mortgage payments up-to-date and keep their homes.

The Legislature also changed the foreclosure process to allow rental property owners to postpone mortgage foreclosure sales for five months and reduce the post-sale redemption period by five weeks. The changes give homeowners more time to reinstate their mortgage loan, and allow homeowners to pay only the amount in default plus the lender's costs of the foreclosure, instead paying off the entire amount of the mortgage loan after the foreclosure sale (HF 19).

We also made significant efforts to pass a bill (HF 354) that would have given homeowners the opportunity to participate in mediation with their lenders so they could renegotiate the terms of the mortgage in a way that would avoid foreclosure and allow homeowners to stay in their homes. The bill was modeled on the Farmer Lender Mediation Program, which was established in the 1980s to deal with the farm crisis.

In response to concerns from banks and credit unions, the bill was changed to shorten the mediation period so the overall foreclosure process was not extended. Nonetheless, the Governor vetoed the bill noting, among other things, his concern about mediators being appointed by the Attorney General's office.

The Governor also vetoed a bill (SF489) that sought to strengthen Minnesota's law on reverse mortgages. Reverse mortgages are marketed to senior citizens, and lenders sometimes engage in predatory behavior. The bill would have stepped up existing counseling requirements, given borrowers a 10-day rescission period, and required lenders to determine that a reverse mortgage was suitable for each borrower. Despite passing 63-2 in the Senate and 106-26 in the House, the Governor vetoed the bill.

What other legislation have you worked on to address affordable housing?

2007 Legislative Session

In 2007, Minnesota aggressively addressed the issue of affordable housing. Our state has the highest growth in number of households that spend more than half their income on housing. This fact motivated the House to pass the strongest housing package in a decade. The package provided increased funding of \$39.6 million in programs to help Minnesota families achieve housing security, \$12.1 million for ongoing investments, and \$27.5 million in one-time funds.

This landmark legislation was vetoed by Governor Pawlenty, but a compromise negotiated between the Governor and the Legislature reduced the investment in affordable housing by \$4 million to offer a final housing package of \$114.5 million; a \$35.6 million increase over the last budget cycle.

The package restored cuts to housing programs from 2003 and provides new investments to increase affordable housing stock and improve the capacity of programs that support low-income families trying to purchase a

home for the first time. In its original form, the bill took aim at the fallout from predatory lending-related mortgage foreclosures with investments in homeownership counseling programs and an economic model to help predict possible pockets of activity for sub-prime lenders and brokers.

The final bill eliminated funds for the predatory lending prediction model but retained, in a reduced amount, funds for homeowner education and counseling.

2008 Legislative Session

In 2008 we enacted a new law (SF 2909) allowing tenants to pay current charges owed for the most recent billing period, and mandating the utility or municipality to restore the service for at least one billing period. Under the new law, the landlord can be restored as the customer of record upon payment of or on completion of an agreement to pay all arrears and late charges. After submitting documentation to the landlord of the tenant's payment to the utility company or municipality, a tenant may deduct that amount from the next rental payment.

We also passed a bill (SF 2910) requiring mandatory expungement of eviction records where a tenant is a victim of foreclosure and either vacated prior to the end of the redemption period or before the commencement of the eviction action. This law also applies where a tenant did not receive required statutory notice.

Additionally, we put a new law (HF 3477) on the books that fills an important gap for owners of manufactured homes. The law outlines notice requirements to manufactured homeowners in default, extends the time for mortgage redemption by manufactured homeowners and applies predatory lending protections to manufactured home borrowers.

Unlike traditional site built homes, many manufactured homes are not eligible for traditional mortgages. This is due in large part to the fact that Minnesota law classifies manufactured homes as personal property. Instead of traditional mortgages, manufactured home owners have chattel or personal property loans, which lack the protections that exist for mortgages.

What is the state of public and assisted housing in your district?

The outlook for public and assisted housing in my south Minneapolis neighborhood remains challenging; however the federal funding of \$19.5 billion that was directed to Minneapolis as part of the American Recovery and Reinvestment Act will help us in our efforts to turn meet the need for affordable housing.

Programs like the Minneapolis Public Housing Authority's Home Ownership Made Easy (HOME) program in partnership with private lenders are helping low-income families make home-ownership a reality. Since the program's inception, 144 former public housing and Section 8 families have purchased their own homes, and more than 700 families have received HOME Program counseling. Of those, there has been only one known foreclosure to date, compared to a national default rate (for all incomes) of 5-6% and a Minnesota default rate of less than 5%. Additionally, the HOME Program produces a "win-win" result with regard to affordable housing for families in our community, as each time a family successfully purchases a home, the public housing unit they were living in or Section 8 rent assistance they were utilizing becomes available for a family off of MPHA's waiting lists - thus benefiting two families at once.

Additional resources will help programs like HOME further ease the affordable housing challenges we face in Minneapolis.

Please describe what other federal resources are needed to address the foreclosure and affordable housing crises.

One of the biggest challenges Minnesota faces is that lenders who are not licensed in other states are not subject to our more stringent regulations. That makes it difficult to hold those out-of-state lenders to the same high standards that we hold Minnesota lenders to.

Uniform federal regulations that apply the same restrictions that we've successfully implemented in Minnesota would address these issues and eliminate the "patchwork" system that currently exists from state to state and that allow lenders to subvert meaningful regulation by simply operating out of states with looser policies that guide their business practices.

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BOARD OF HENNEPIN COUNTY COMMISSIONERS

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**Testimony before the House Subcommittee
On Housing and Community Opportunity
Minneapolis, Minnesota
January 23, 2010**

Chairwoman Waters, on behalf of the residents of Hennepin County and my colleagues on the County Board, I am pleased to welcome you to Minneapolis and Hennepin County for this important field hearing of the Subcommittee on Housing and Community Opportunity. Our own Congressman, Keith Ellison, has been at the forefront of efforts to effectively respond to the foreclosure and housing crisis both nationally and here at home. We are thankful for his leadership and representation of our community.

I am Gail Dorfman. I have served as a Hennepin County Commissioner for eleven years and Chair the Health and Human Services Committee of the County Board. Today you are hearing from leaders in our community who have been wrestling with the neighborhood devastation and the displacement of thousands of our residents wrought by the foreclosure crisis. I will say up front that the most important and effective action we've taken is to come together as a community to collaborate and innovate as partners through the Minnesota Foreclosure Partners Council. And while the pace of new foreclosures slowed in 2009 and our prevention and revitalization efforts grew in large part due to the influx of federal support, we cannot yet say that we have turned the corner. Instead, we have seen the foreclosure problem begin to shift from the city to the suburbs, and from being caused by mortgage products to now being impacted by job loss and unemployment.

Hennepin County is the largest unit of local government in Minnesota. There are 46 municipalities within the County, with a population of just over one million people. The number of annual mortgage foreclosure sales in Hennepin has increased from 3,055 in 2006 to 5,668 in 2007, to 7,348 in 2008, and returned to the 2007 level this past year. That's just shy of 22,000 foreclosures in four years, representing 4% of our overall housing stock and particularly devastating for urban and suburban communities with the highest concentrations. As a result, home values have fallen dramatically in the neighborhoods with the most foreclosures, with a 14% decline in home values in North Minneapolis and 10% and 12% declines in the Cities of Brooklyn Park and Brooklyn Center. We've also seen an increase in commercial foreclosures, with 150 last year.

Let me report on what we have been doing at the County to address this crisis. Our focus has been on foreclosure prevention through education and outreach, providing affordable housing opportunities for impacted renters and homeowners, investing in communities with concentrations of boarded and vacant housing, and prosecuting mortgage fraud.

We've provided prevention counseling resources for at-risk homeowners and renters through the Minnesota Home Ownership Center, HOME Line and Legal Aid that have been accessed by more than 3,200 households. We've held 25 foreclosure prevention workshops at libraries across the County and distributed a workshop video seen by thousands more.

We've stepped up efforts through the Sheriff's office and community partners to make sure that both owners and tenants facing foreclosure understand the foreclosure process and their rights under the law.

We've been aggressively prosecuting mortgage fraud cases through County Attorney Mike Freeman's office. To date, twenty-four persons and companies have been convicted, and charged cases involve 210 properties with over \$60 million in fraudulent loans.

Hennepin County was awarded \$8.6 million in Federal Neighborhood Stabilization Program funding to work with seven targeted suburban cities to acquire and rehab abandoned and foreclosed homes and to primarily assist first-time homebuyers, with our NSP goal of providing affordable home ownership opportunities for 200 households. We have invested an additional \$2 million through the County affordable housing capital fund and the federal HOME program to acquire and rehab another 79 foreclosed and vacant properties in 2009. Since 2000, the County has provided \$35.6 million in local county funding to assist in the preservation and new construction of over 3400 affordable housing units. We also contributed \$1.25 million to assist the City of Minneapolis in the demolition of foreclosed properties that were beyond saving.

We are targeting some of our federal Homeless Prevention and Rapid Re-housing (HPRP) funds to help renters at-risk of homelessness due to foreclosure. Sixty-five percent of the foreclosures in Minneapolis involve rental properties, and approximately 10% of the families in our homeless shelters over the past two years are renters coming from these foreclosed properties.

HPRP is the best tool we have right now to address the problem of renters impacted by foreclosure, through the HPRP City/County partnership and our contracts with community agencies. Legal Aid is providing the legal assistance that buys the family a little more time and St. Stephens provides the relocation assistance so that families never have to enter shelter to get help. Just since October, these two agencies have served over 130 people in 40 families.

Let me share one story that illustrates how well this is working. Legal Aid has been working with a single Mom with two children who has rental housing with a Section 8 voucher. She moved in last year and was notified just before Thanksgiving that she had to move out within 48 hours because the house was in foreclosure. Despite the requirements of state and municipal law, the landlord had not disclosed the foreclosure. Legal Aid attorneys were able to get the 48 hour notice retracted. The bank then issued a 90 day notice, but Legal Aid informed the bank of her Section 8 status and was able to extend the family's stay to when their lease ends next summer. Legal Aid is now working with the family and St. Stephens Housing Services to make sure the utilities remain on and that the family is resettled into a new home next summer. Without this help, this family would have ended up in shelter this winter.

So, in Hennepin County, we're tackling the foreclosure and housing crisis from every angle that we can, but we're still falling short. For every family we get out of shelter, there's another family in line to take their place. For every family we work with to prevent foreclosure or find alternative affordable housing, there are new families walking away from their homes because they owe more than the home is worth.

While NSP is working well to leverage other public and private resources, to stabilize communities and provide affordable housing for primarily first-time homebuyers, it is not a model that works well for renters and for households at 30% or below the average median income. We're also struggling with NSP dollars to compete with private investors and speculators who put cash down and can move more quickly to acquire properties, because they don't have to comply with environmental assessments, appraisals, 1% discounted prices, and inspections. We worry that we'll not meet the September 30th deadline of having all our NSP funds committed.

We are thankful for the new federal assistance we've received over the past year to address the foreclosure and housing crisis, but government cannot solve this problem alone. Hennepin County, our cities, and our community partners have stepped up to fill the gaps, to help our neighborhoods impacted by foreclosures and families who have lost their housing. For Hennepin County, responding to the foreclosure crisis didn't fit neatly into our organizational structure or mandated services, but we did it anyway and took on roles that we normally wouldn't do. I don't see the financial sector doing that. While we have some strong partnerships with banks, for the most part lenders have been unwilling or unable to manage scattered-site single family rental properties or aggressively work on homeowner loan modifications. It's time for the financial sector to do what the rest of us are doing – step up and help us turn the corner on this crisis and do right by our communities.

Thank you for being here today and for the opportunity to testify.

**Testimony before the House Financial Services Committee Subcommittee on
Housing and Community Opportunity regarding**

**“The Impact of the Foreclosure Crisis on Public and Affordable Housing
in the Twin Cities”**

January 23, 2010

Testimony presented by Chip Halbach, Executive Director, Minnesota Housing Partnership

I am submitting this testimony on behalf of Minnesota Housing Partnership. We are a nonprofit organization that promotes affordable housing through public education and public policy advocacy. We also provide technical assistance and grants to support the efforts of Minnesota communities as they create and preserve affordable housing. Since our incorporation in 1989 we have provided assistance to more than 300 Minnesota communities and nonprofit agencies.

Since 1995 we have also been HUD’s primary partner for the delivery of technical assistance in Minnesota, serving nonprofits and communities receiving HOME, Community Development Block Grant, and McKinney-Vento homeless program funding.

This working relationship with HUD carries over to our efforts to help communities respond to foreclosures. In 2009, Minnesota Housing Partnership led a three-agency consortium that was selected by HUD as one of nine national providers of technical assistance for the Neighborhood Stabilization Program.

The focus of my remarks will be the plight of renters in the current economy, which is characterized by tight credit, high unemployment, and decreasing capacity of state and local governments to intervene without support from the federal government. I will conclude by outlining what we believe are the most important steps the federal government can take to keep renters adequately and affordably housed.

The economy and its impact on housing stability

We believe that for the last two years the primary housing challenge facing Minnesotans stems from the loss of income. Job losses and cut-backs have led to increased foreclosures, evictions, and increased homelessness.

The unemployment rate in Minnesota is now 7.4%. While Minnesota unemployment has closely tracked the national unemployment rate, we’ve done better than the national rate over the last several months. Still unemployment was only 4.8% two years ago, and since then, the number of unemployed Minnesotans has increased by nearly 60%, with 218,000 workers unemployed this

past December. This does not include those who have quit looking for work, nor people working part-time because their hours have been cut.

[Slide one, Minnesota vs. National Unemployment]

While the foreclosure crisis was instigated by bad loans and loose money, inflating house prices to unsustainable levels, job loss is now the primary cause for people losing their homes. Fifty percent of those seeking assistance through Minnesota's foreclosure prevention counseling program reported that reduction or loss of income led to default on their home mortgages. In 2008 the Home Ownership Center, the sponsor of Minnesota's counseling programs, reported that 59% of those counseled had prime, fixed rate loans.

While safeguards against toxic loans have been put in place, defaults continue to increase in the weak economy. The delinquency rate is now about four times what it was in early 2005.

[Slide two, Minnesota Mortgage Delinquencies & Pre-foreclosure Notices]

It is more difficult to pinpoint the impact of the economy on renters. However, we have evidence that renters in "affordable" housing are having a hard time meeting their rent payment obligations. Our agency, in partnership with three of the state's largest nonprofit affordable housing developers, tracks late rental payments by tenants in nearly 5,000 units statewide. The latest data, from the third quarter of 2009, shows that 23% of their tenants are late on paying their rent by at least one month. Another indication of the impact of the economy on renters is that turnover of apartments has increased considerably in recent months.

[Slide three, Tenants in Non-Luxury Units with Rent Past Due]

At the extreme, challenges in paying mortgages and rents result in homelessness. Minnesota shelters are facing significant increases in use. Job loss, resulting in foreclosures or evictions, is increasingly being reported to shelter intake workers as the cause of homelessness. Furthermore, shelter use by people using shelters for the first time in their lives is up, and is another indicator of a tough economy. The number of families seeking shelter in Hennepin County-contracted shelters has increased by about 70% over the last 3 years, based on November counts.

[Slide four, Hennepin Family Homelessness]

Across the housing continuum the impact of the recession is felt as people fall behind in their housing payments. For too many, this economic downturn is leading to homelessness.

Affordability trends for Minnesota renters

Overall, almost half of Minnesota's renters pay more than 30% of income for housing. More than one in five renter households pays more than half of their income for housing, which means these families struggle to cover the costs of other necessities, such as food and transportation.

The impact of severe rent cost burden falls mostly on lower income households, particularly those with fixed income. Of renters who are paying more than half their income for housing, the majority, more than three-quarters in fact, are considered extremely low income. This means that a family of four would be earning less than \$21,500 annually. Many of these families, of course, are on SSI or want to work but are un- or under-employed.

Over the long term the main culprit in the cost burden increase for renters is the divergence of income and housing costs. In Minnesota between 1980 and 2008 rents *increased* 19% while incomes for renters *decreased* 10%, stretching families increasingly over time.

[Slide five, Median Rents and Renter Incomes, Minnesota]

More recently, vacancy rates have been increasing, even for “affordable” units. In the Twin Cities, this is true both for apartments overall, as well units renting under \$1,000 per month. The increased vacancy rates are likely due to families doubling up when they are unable to support themselves on their incomes. With higher vacancy rates, apartment owners have begun offering rent and amenity incentives to entice rental applications. Currently the apartments are out there, but people simply can’t afford them.

[Slide six, Twin Cities Rents & Vacancy Rates]

Looking longer term, projected population growth and demographic changes, including increasing numbers of seniors, will require additional rental housing in the Twin Cities. The Twin Cities Metropolitan Council projects that for the 2011-2020 decade, the metro area will annually need 5,100 additional housing units affordable to households with incomes below 60 percent of median. But the current level of production of affordable housing is only about 1,000 units per year *statewide*.

Currently, more families are finding themselves unable to find jobs with decent pay, and subsequently not able to afford existing rental housing. This is leading to doubling up and, as well, increased homelessness. Without a significant change in resources for affordable housing production, many more families and seniors will struggle to cover housing costs and their other living expenses.

Solutions

Since loss and inadequacy of income is the most important reason people are losing their homes, a primary federal strategy to keep people sheltered must be to address the gap between what people can afford to pay and the cost of housing. This, of course, is most critical for extremely low income households where the gap is largest.

Minnesota has many excellent state and local housing programs and an impressive statewide infrastructure of public and private organizations delivering housing assistance and producing affordable housing. However, state and local governments face significant challenges in maintaining programs. For the current budget period state appropriations for housing declined 24% from the previous biennium, which was a \$28 million cut. Just to maintain our current levels of housing production and support, Minnesota will need a significant increase in federal resources, though even these current efforts leave us further behind each year in addressing actual need.

I conclude my remarks by identifying steps the federal government can take to support what is being done at the state level. We need federal assistance to both create and preserve the supply of affordable housing and to provide additional rent subsidies, so that low income tenants can access apartments in the private market.

Low Income Housing Tax Credit

Minnesota, like other states, has most of its affordable rental housing capitalized through the Low Income Housing Tax Credit program. Through these tax credits Minnesota finances 1,500

units of rental housing production and preservation annually. With rents targeted to serve households with incomes up to 50% or 60% of median, it can be argued that the tax credit program does not help those most in need. But Minnesota has effectively used tax credit resources to provide affordable homes for extremely low income households, or those at 30% of median income. Recently, for instance, tax credits, along with additional assistance, funded St. Paul's 48 unit Lexington Commons, which provides housing exclusively to individuals who are chronically homeless, as well as Minneapolis' 45-unit Clare housing project, which houses people with HIV/AIDS.

As is widely known, with the collapse of the investment market, the Low Income Housing Tax Credit program is in trouble, since tax credit equity is hard to come by. The short term solution is to extend the tax credit exchange program, which was part of the Housing and Economic Recovery Act of 2008. The exchange program allowed states to exchange a portion of 2008 and 2009 tax credits for cash from U.S. Treasury. The exchange should be made available for both the 9 percent and 4 percent tax credits. Longer term, we need better incentives to encourage investors to acquire tax credits. Any rewrite of Community Reinvestment Act should include strong incentives for CRA-compliant lenders to invest in tax credit projects. Also, a restructuring of Fannie Mae and Freddie Mac should put these agencies, which were formerly key investors in tax credits, back into the tax credit market.

National Housing Trust Fund

The federal government must follow through with funding for the National Housing Trust Fund. The Fund also passed in 2008 as part of the Housing and Economic Recovery Act, and dedicates capital to building or rehabbing units for the nation's lowest income people. If the Trust Fund were funded nationally at \$1 billion as proposed, Minnesota would receive approximately \$14 million, as estimated by HUD. At \$100,000 per apartment, this amount would create 140 sorely needed apartments. But we need even more.

Related to the trust fund, \$65 million for project-based vouchers, an amount which has been proposed in conjunction to the trust fund, should also be funded. Even when capital costs for creating rental units are paid for entirely by charitable or public sources, ongoing monthly operating costs cannot be covered by rents from the lowest income renters. In Minnesota the operating costs for a two-bedroom apartment run about \$500 monthly. With tenants paying the standard of 30% of their gross income for their apartments, a tenant must earn at least \$20,000 annually to cover operating costs such as maintenance, utilities, insurance and taxes. Owners of properties who serve at affordable levels any households with incomes below \$20,000 need some subsidy in order to break even.

Section 8, Housing Choice Vouchers

About 30,000 Minnesotans utilize the Section 8 Housing Choice Voucher program, in which tenants pay about 30% of their income to rent basic apartments, with the unaffordable portion of the rent covered by a voucher payment. While this program is a lifesaver for many families who might otherwise be homeless or unable to meet basic needs, many more vouchers are needed. The number of low income Minnesota renter households who are cost burdened exceeds the number of vouchers by more than ten times.

We need an effective, efficient voucher program. The Section Eight Voucher Reform Act (SEVRA) will help get us there. We look forward to the simplifications and rationalization in

income determination, rental inspections, portability rules, and budgeting that the legislation will bring. Also, SEVRA authorizes 150,000 new rental vouchers nationally, a big step in the right direction.

Preserving Existing Affordable Rental Housing

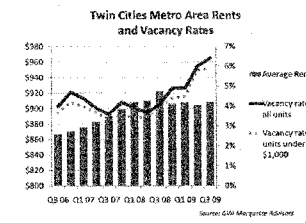
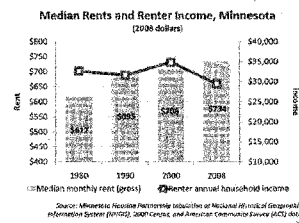
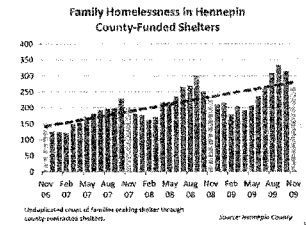
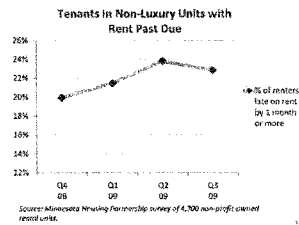
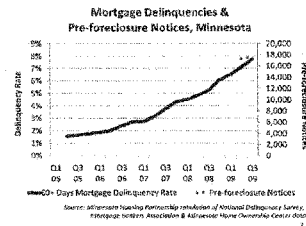
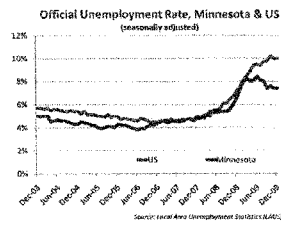
Preservation of our existing rental housing is another area in which the federal government can have a large, positive impact on housing in Minnesota. We appreciate the step Congress took last year to ensure that the HUD public housing program has enough funding so that housing authorities that administer the program can meet their basic operating costs. After years of severe underfunding for public housing operations, this is of enormous benefit in preserving public housing. More resources, however, need to go toward public housing capital costs and improvements. The public housing stock is aging and the backlog of capital needs for Minnesota's public housing now exceeds \$400 million. The state of Minnesota has prioritized preservation of the public housing stock by contributing \$12 million to public housing rehab. But the state's resources fall far short of the need to preserve Minnesota's 20,000 public housing units.

Similar to public housing, it is critical that the state preserve the affordability and function of other federally assisted housing. Legislation is needed to facilitate use of project-based Section 8 assistance to preserve properties, to offer purchase rights to preservation-minded purchasers, and to enhance tenant protections and participation in preservation decisions.

Conclusion

The harmful impact of the poor economy on the ability of people in Minnesota to afford their housing is likely to continue for the next several years. State and local government and private philanthropic resources are declining, and unable to fill the affordability gap. Minnesota, of course, is not the only state in this situation. We join those in other states who look to the federal government to provide resources and leadership to stem the tide in rising foreclosures, evictions, and homelessness, and to provide hope to those of us who cannot meet the cost of housing.

Chip Halbach, Minnesota Housing Partnership,
Testimony to the Subcommittee on Housing and
Community Opportunity, January 23, 2010/ 21/2010



**Written Testimony of Linda Higgins, Minnesota Senate, District 58
Before the Subcommittee on Housing and Community Opportunity
January 23, 2010**

Chairwoman Waters and honorable members of the Committee, my name is Linda Higgins and I am the Minnesota State Senator from District 58 and I proudly represent North and Downtown Minneapolis. In the Minnesota Senate, I am the chair of the Public Safety Budget Division.

It is an honor for me to appear before you today to discuss housing issues and foreclosure prevention in Senate District 58.

For several years, I have carried and passed legislation related to foreclosures and the devastation that results. Visitors to my office are used to seeing maps showing the foreclosures by year in Minneapolis. Jaws drop when they see, graphically displayed, the density of foreclosures in my district, and the change from year to year. Many comment that there are so many dots overlaid on other dots that there is no base map that can be seen. Clearly, we are ground zero for foreclosures in our city, our county, and our state. Minneapolis Mayor RT Rybak says it this way, "When Minneapolis gets the sniffles, North Minneapolis gets pneumonia."

I'd like to describe the state of my district after years of foreclosures. Some of the 16 neighborhoods are slowly recovering. Foreclosed properties have been repurchased for considerably less than the previous price. Some young families have been able to purchase great houses that are in pretty good shape. Others are buying homes that have been rehabbed with NSP funds. Others are taking a chance and buying what could kindly be called "fixer-uppers."

Other homes, however, are being snapped up by investors. Some are clueless about how to rehabilitate a building and get good tenants. Others think that the laws really aren't meant for them. They buy a house for pennies, paint the walls, scrub the kitchen appliances, and rent it out. They forget the small details like the condemnation order and the requirements for lifting the condemnation and getting a new certificate of occupancy and the need for a rental license.

A case in point is a condemned four-plex near my house. It was bought by a consortium of investors from North Dakota. The consortium bought about 50 properties and hired someone local to get them in shape to rent. It's now been eight months since he started working on the building. He's failed the final inspection, so it's still condemned. He lied about being an asbestos-abatement contractor and illegally removed asbestos, and got caught. City inspections staff have told me that his work at other properties is also shoddy.

Another four-plex near my house also was recently sold. It's been neglected for decades and has been the scene of shootings, fires, and fights. The neighbors contacted a reputable nonprofit organization and asked if it would bid on the building. The nonprofit

inspected the building and determined that it would be a good addition to its other properties, which are rented to low-income families. It had the high bid, but the lender would not sell to it because it was using NSP funds and the lender didn't want the red tape. It was sold to someone else, who recently re-sold it to another nonprofit developer who I believe will be a good, responsible owner.

Many residents in our neighborhoods are seeing opportunities in the availability of homes at modest prices. They are buying properties near their homes and are restoring them. They usually become responsible rental property owners, in part because of the proximity of their home and rental property.

But still, there are many blocks in North Minneapolis with more than one vacant house. That proves challenging especially in the winter. The sidewalks go unshoveled, pipes will freeze if they weren't winterized. Sometimes squatters move in. If the house becomes open to trespass, it will get boarded up. And according to a 2001 study in Philadelphia, houses within 150 feet of a vacant or abandoned property experienced a net loss of \$7,627 in value, making it more of a burden on nearby residents.¹ In addition, a study in Austin, Texas, found that "blocks with unsecured [vacant] buildings had 3.2 times as many drug calls to police, 1.8 times as many theft calls, and twice the number of violent calls" as blocks without vacant buildings.²

The Minneapolis Public Housing Authority serves members of our community and provides approximately 5,800 public housing rental units city wide, many of which are in my district.³ There is a great need for additional affordable housing in the community. The most recent opening of the Section 8 waiting list took place on June 12 and 13, 2008, with applications available both online and in paper. In these two short days, close to 14,000 applications were received.⁴

We need more affordable housing options and more funding for affordable housing. We faced a budget deficit in Minnesota for the 2008-2009 budget, we are currently addressing the deficit for the 2010-2011 budget and we know we will face a tremendous deficit for the 2012-2013 budget. So in Minnesota we have a very challenging budget deficit to deal with now and in the next few years, and it makes it impossible for us to do the investments we need to in affordable housing.

¹ Temple University Center for Public Policy and Eastern Pennsylvania Organizing Project, "Blight Free Philadelphia: A Public-Private Strategy to Create and Enhance Neighborhood Value," Philadelphia, 2001.

² William Spelman, "Abandoned Buildings: Magnets for Crime?" *Journal of Criminal Justice* 21.5 (1993): 481.

³ Minneapolis Public Housing Authority. "MPHA Overview." n.d. Web. 20 Jan. 2010. <<http://www.mphaonline.org/agencyfa.html>>.

⁴ Minneapolis Public Housing Authority. "Section 8 Housing Choice Voucher Program Waiting List." n.d. Web. 20 Jan. 2010. <<http://www.mphaonline.org/s8waitl.html>>.

Efforts in the Minnesota Senate to Address Foreclosure Prevention

Minnesota has been a strong advocate for predatory lending reform and foreclosure resources and prevention. I am very proud to have worked on this legislation. In 2007, I carried a Predatory Lending Prevention package in the Minnesota Senate.⁵ This package addressed several predatory lending prevention measures including requiring mortgage lenders to verify a borrower's ability to repay the loan; prohibiting refinancing that did not benefit the borrower; requiring that mortgage lenders must act in the best interest of the borrower; requiring individuals to receive financial counseling before refinancing a "special mortgage"; banning financial penalties for repaying a subprime loan before its conclusion; requiring that a mortgage originator must orally inform a borrower of additional taxes and fees that will be associated with the loan the first time the originator quotes a rate to the borrower; allowing borrowers to sue if they are harmed by predatory lending or an over-inflated home appraisal; and finally, the package made mortgage fraud a specific crime.

In 2008, I carried a bill related to foreclosure sale publication of notice in the Minnesota Senate.⁶ In many foreclosure cases where properties have been abandoned, the properties become a nuisance to neighbors and the community with exposure to weather damage, lack of upkeep, drug and illegal activities taking place, and theft of copper pipes and other salvageable materials. This law allows the foreclosure process with abandoned properties to be expedited by making it easier to use the five-week redemption period. The law states that if a debtor fails to show up at a district court hearing to show cause for the reduced redemption period, it is considered conclusive evidence of abandonment of the property.

In addition to foreclosure prevention measures, I also worked on resources for foreclosure victims in 2008.⁷ The law I worked on removes the cap of \$5,500 for mortgage foreclosure assistance provided under the Minnesota Housing Finance Agency's Foreclosure Prevention Assistance Program, tying it instead to a fluctuating economic indicator (110% of the greater of state or applicable metropolitan statistical area median monthly owner cost of owner-occupied housing, as estimated by the United States Census Bureau using data collected in the most recent American Community Survey, multiplied by six).

In 2009, I continued the work I did in 2008 and carried a large package in the Minnesota Senate that addressed property issues related to foreclosed homes.⁸ The new law allows the holder of the mortgage or Sheriff's certificate to protect vacant and unoccupied

⁵ Laws of Minnesota 2007, Chapter 18 and Laws of Minnesota 2007, Chapter 74
<<https://www.revisor.leg.state.mn.us/data/revisor/law/2007/0/2007-018.pdf>>
<<https://www.revisor.leg.state.mn.us/data/revisor/law/2007/0/2007-074.pdf>>

⁶ Laws of Minnesota 2008, Chapter 178
<<https://www.revisor.leg.state.mn.us/data/revisor/law/2008/0/2008-178.pdf>>

⁷ Laws of Minnesota 2008, Chapter 362
<<https://www.revisor.leg.state.mn.us/data/revisor/law/2008/0/2008-362.pdf>>

⁸ Laws of Minnesota 2009, Chapter 123
<<https://www.revisor.mn.gov/data/revisor/law/2009/0/2009-123.pdf>>

premises from trespass (currently they may protect from waste) until they receive notice that premises are occupied. For abandoned properties, they are required to make periodic inspections and install or change locks on all windows and doors. For abandoned properties, they may board windows, doors or other openings, install and operate alarm systems, and may take any other measures to prevent damage from the elements, vandalism, trespass, or other illegal activities. We included language that would provide notice of requirements, opportunity to request a hearing, and duty to protect the abandoned premises as well as timelines for complying and requesting a hearing and notice of costs incurred by the holder of the mortgage or sheriff's certificate to protect abandoned premises (costs may be added to the principal balance of the mortgage or the costs allowable under redemption). We corrected an inadvertent omission of Chapter 581 (foreclosure for action) from a tenant notice bill that was passed in 2008. We heard from people and State Senators (hearing from their constituents) that they were not receiving adequate notice and wondered why they weren't based on the law we passed in 2008. We did some checking and found out from the Hennepin County Sheriff's office that proper notice wasn't being provided because of the accidental omission of Chapter 581. So we corrected the error in the relevant statutes. We also added municipalities to the parties allowed to initiate the process to reduce the time for redemption period in a foreclosure by advertisement.

This new law also contains language concerning trespassing on construction sites by removing overly technical and unnecessary restrictions on the types and placement of "no trespass" signs. Previous law said there must be notices on the building, but a lot of construction sites did not have a building structure, so we now require a certain number of signs based on the size of the construction site. With the dramatic increase in copper thefts, the trespassing provision pertaining to construction sites has become increasingly important to law enforcement and prosecutors.

In this law we also made changes to the nuisance property statute. The increasing number of foreclosed and vacant properties has led to a dramatic increase in the number of problems and nuisance activity occurring on these properties. We defined owner and occupant of these buildings because it is often difficult to cite the responsible party and obtain an order of abatement. Illegal parties where alcohol is sold for profit have been increasing in abandoned properties. A violation of this nature will only require one instance.

Efforts in the Minnesota Senate to Enforce Protections for Renters Affected by Foreclosure

Minnesota has passed several progressive measures to address renter protection for those affected by foreclosure. In 2008, I carried a bill in the Minnesota Senate related to landlord and tenant notices.⁹ This law provides notice rights to tenants who are victims of foreclosure by requiring landlords to tell prospective tenants that the property is in foreclosure and by waiving any penalty for a tenant in a foreclosed property withholding

⁹ Laws of Minnesota 2008, Chapter 177

<<https://www.revisor.leg.state.mn.us/data/revisor/law/2008/0/2008-177.pdf>>

the last month's rent. Tenants in this situation are unlikely to get their security deposit back and may have exhausted their ability to receive rental assistance from the county.

I carried another bill in 2008 related to renter protection, specifically related to eviction case expungement.¹⁰ This law provides for mandatory expungement of an eviction if a tenant vacated a foreclosed property prior to the expiration of the redemption period or a tenant never received the required notice to vacate. Many lenders file eviction notices near the end of the foreclosure redemption period to protect their ability to remove holdover tenants. Many tenants, however, have already left the property or never received the notice to leave. It is unfair for renters to be saddled with eviction on their rental record, and this bill helps alleviate the consequences that go along with eviction records.

Another bill in 2008 worthy of noting is a bill carried by Senator Rick Olseen, from Senate District 17; the bill addressed the rights of tenants to pay utility bills.¹¹ This new law gives tenants living in residential buildings better options to maintain or restore utility services when a landlord doesn't pay utility bills.

Federal Resources

Minnesota appreciates the federal resources that have been sent out to the states to address the foreclosure crisis. However, some federal policies impede our progress here in the states. For example, federal legislation preempts the state control of federally chartered lending institutions, making state efforts less effective than they could be. Our 2007 bills have been called the strongest in the nation, but in actuality, only a handful of state banks were actually affected. Since most state legislatures are considerably more nimble than Congress, removing the preemption will allow us to do what needs to be done in a more timely fashion than waiting for a federal solution.

A second suggestion for federal resources includes funds and support for land banking, maybe more appropriately called house banking. Many of the nonprofit housing organizations who are working so hard on the NSP note that there are too many homes on the market now and that holding some back for future sale will continue to provide affordable housing for a longer time. The final suggestion I would give to the committee would be to extend the length of time to use the NSP funds.

Thank you for the opportunity to testify.

¹⁰ Laws of Minnesota 2008, Chapter 174

<<https://www.revisor.leg.state.mn.us/data/revisor/law/2008/0/2008-174.pdf>>

¹¹ Laws of Minnesota 2008, Chapter 313

<<https://www.revisor.leg.state.mn.us/data/revisor/law/2008/0/2008-313.pdf>>

Testimony before the House Financial Services Committee Subcommittee on Housing and
Community Opportunity regarding

“The Impact of the Foreclosure Crisis on Public and Affordable Housing in the Twin Cities”

January 23, 2010

Testimony presented by Mark Ireland, Supervising Attorney of the Foreclosure Relief Law
Project, on behalf of the Housing Preservation Project

Madame Chairwoman and Members of the Subcommittee, the Housing Preservation Project thanks you for inviting us to testify today regarding the impact of the foreclosure crisis on public and affordable housing in the Twin Cities, specifically, how the foreclosure crisis is adversely affecting the affordable rental market. The Housing Preservation Project is a non-profit, public interest law firm. Our primary mission is to employ legal and advocacy strategies to preserve and expand affordable housing for low income individuals and families.

In 2007, it was clear that foreclosures and the growing economic crisis were destabilizing neighborhoods. It was also having a disproportionate impact on persons of color, displacing both homeowners and renters. With a grant from the Family Housing Fund, we started a program specifically focused on foreclosures---the Foreclosure Relief Law Project. Over the past three years we have brought innovative lawsuits on behalf of individuals and neighborhoods negatively impacted by predatory lending and foreclosures. In 2008, the Foreclosure Relief Law Project worked with the Family Housing Fund, HOME Line and other non-profit legal service providers to bolster legal assistance for renters and strengthen laws protecting renters living in foreclosed properties. The Housing Preservation Project is also active in leveraging affordable housing opportunities along planned transit corridors, and works throughout the country to retain affordable housing and ensure that it is safe and habitable.

Because we are one of the few legal organizations that are active in both foreclosure prevention and in protecting affordable rental housing, we have a unique perspective on these issues. This testimony will share some of our own research and findings related to the nature of the problem, and then make suggestions for useful reforms.

The bottom-line is this---our recovery efforts should not simply be a band-aid, our recovery efforts need to strengthen communities and make our communities less susceptible to future economic exploitation. People are out there right now trying to figure out new ways to drain money from vulnerable people and vulnerable communities. But, we have an unprecedented opportunity to break a cycle of this ever-evolving exploitation. We can use our recovery efforts to expand long-term, quality, affordable housing and integrate communities. By bringing new properties into federal housing programs, we ensure that there are standards and oversight.

THE FORECLOSURE CRISIS AND RENTERS

Although significant media coverage did not begin until 2007, the foreclosure crisis had been going on for years.¹ In certain neighborhoods of Minneapolis and Saint Paul, the number of foreclosures began to exceed normal rates in 2003. By 2006, the foreclosure rate had spiked even higher. For example, in 2006, the foreclosure rate in north Minneapolis was six times higher than the foreclosure rate for Hennepin County, and the Hennepin County foreclosure rate was three times higher than what it was in 2003.²

The initial programs designed to stop foreclosures and mitigate the effects of foreclosure were targeted at homeowners. Nobody wanted to reward real estate speculators or lenders that enabled and profited from this speculation.³ This policy decision, however, had the unintended consequence of creating a significant gap in foreclosure relief efforts. Renters, arguably the most innocent party impacted by a foreclosure, had few legal rights and there was little, if any, funding to help defray unanticipated moving costs, deal with utility shut-offs, or recover lost security deposits. Because many renters were personally served with the foreclosure papers, many renters also misunderstood their rights. It was common for a renter to immediately move, even though they had the right to remain in the property during the six month redemption period. Other renters believed that they could stop paying rent, which created the potential for an eviction.

A study recently released by the University of Minnesota found that non-homesteaded (rental) property comprised 61% of all foreclosures that occurred in North Minneapolis in 2006-2007.⁴ A similar proportion of foreclosures in Saint Paul, during this time period, were also non-homesteaded (rental) property. The University of Minnesota study also found that a very high percentage of these properties had children that were attending Minneapolis public schools.⁵

An even harder situation to quantify and analyze are the rental properties that were part of a larger mortgage fraud scheme. When a property is part of a mortgage fraud scheme, the adverse affect on the renters and the risk that the property itself will deteriorate becomes even greater. For example, in Minneapolis, a Hennepin County District Court identified 141 rental properties that were part of an alleged mortgage fraud ring perpetrated by TJ Waconia.⁶ Some of these

¹ For example, in 2006 there were just 57 articles in the *New York Times* that included the word "foreclosure." In 2007, there were 274, and in 2008, there were 665 articles that included the word "foreclosure."

² Mark Ireland, *Bending Toward Justice: An Empirical Study of Foreclosures in One Neighborhood Three Years after Impact and a Proposed Framework for a Better Community* (October 22, 2009). Available at SSRN: <http://ssrn.com/abstract=1492777>

³ See e.g. House Committee of Financial Services, *House Passes American Housing Rescue and Foreclosure Prevention Act*, Press Release (May 8, 2008) ("Only primary residences are eligible: NO speculators, investment properties, second or third homes will be refinanced."); United States Dept. of the Treasury, *Relief for Responsible Homeowners One Step Closer Under New Treasury Guidelines: Updated Fact Sheet*, Press Release (March 4, 2009) ("[W]hile attempting to prevent the destructive impact of the housing crisis on families and communities. It will not provide money to speculators, and it will target support to the working homeowners...")

⁴ http://treas.gov/press/releases/reports/housing_fact_sheet.pdf

⁵ *Id.*

⁶ Steve Brandt, *Minneapolis Takes Charge of T.J. Waconia homes in fraud case*, Star Tribune April 16, 2008.

properties were occupied, but not being maintained, while others were vacant, unsecured, and creating neighborhood blight and attracting illegal activity.⁷

AFTER THE FORECLOSURE SHERIFF'S SALE

After the foreclosure sheriff's sale, there continues to be an adverse affect on renters and the surrounding neighborhood. The Housing Preservation Project studied a sample of one hundred foreclosed properties in Minncapolis, which were foreclosed upon in 2006. We found that there was a significant delay from the date of the foreclosure Sheriff's Sale to the date that the property was transferred from the lender to a new owner.⁸ The median time was 484 days.⁹ Even when the redemption period is taken into account, it still took ten months for a property to be sold. During this time, the property is presumably sitting vacant, unused, and often becomes a magnet for crime. We found that 83% of the foreclosed properties in our sample had 911 calls post-Sheriff's Sale.¹⁰ The average number of 911 calls was eight, while the median was five calls per property.¹¹

The standard, traditional practice of lenders is to evict the renters of foreclosed properties as soon as possible. Most lenders say that they are not in the "business of managing rental property." They do not have the procedures and staff available to maintain rental property nor do they have the procedures to collect rent. Lenders also state that it is more difficult and expensive to sell occupied property. And so, rather than create and maintain a stream of revenue, lenders force the renters to move and eventually sell the properties at a discount. Based upon our sample, the difference between the amount that a lender purchased a property for at the Sheriff's Sale auction (typically the amount owed on the mortgage loan) and the later sale price was usually a loss of \$65,039 (average) or \$77,424 (median).¹² As a percentage, the lender sold the properties for a median loss of 49%.¹³

REAL ESTATE SPECULATORS AND RENTERS

Of course there is nothing inherently bad about people who invest in real estate and responsibly rent these properties. Being a responsible landlord, however, requires knowledge of federal, state and local laws; capital to maintain the property and ensure that it is in code compliance; and time to respond to both tenant and community questions or concerns. The problems arise when people invest in real estate to turn a quick and easy profit. That profit always comes at the expense of the renters and the neighborhood.

For example, some cities have experienced out-of-state real estate speculators purchase foreclosed properties for small amounts of money, and then sell them to other real estate

⁷ *Id.*

⁸ Mark Ireland, *Bending Toward Justice: An Empirical Study of Foreclosures in One Neighborhood Three Years after Impact and a Proposed Framework for a Better Community* (October 22, 2009). Available at SSRN: <http://ssrn.com/abstract=1492777>

⁹ *Id.*

¹⁰ *Id.*

¹¹ *Id.*

¹² *Id.*

¹³ *Id.*

speculators for a small profit.¹⁴ None of the buyers are interested in fixing the property, selling it, or renting it. Thus, the speculators are not only allowing a property to deteriorate, the speculators are also keeping an affordable rental property off the market.

On Tuesday, about fifty properties were posted on ebay. The properties were primarily located in hard-hit urban areas like Detroit, Michigan and Cleveland, Ohio. One property, a three bedroom and one bath house in Cleveland, had eight bids on Tuesday. The “current bid” was \$560. Luckily, we are unaware of any foreclosed properties in the Twin Cities that have been sold on ebay in this manner. But, we have found a significant increase in the number of unlicensed rental properties as well as rental properties that are not in compliance with local housing codes and safety requirements.

THE NEED FOR FEDERAL HELP

Public safety, health, and welfare have traditionally been state and local issues. We just provided information that may initially appear to be beyond the scope of the federal government. For example, code compliance, policing nuisance properties, and regulating landlords are traditionally local matters. The foreclosure crisis and broader economic crisis, however, is national in scope. The federal government can help mitigate the local, negative impacts of the foreclosure crisis both directly and indirectly.

With regard to renters and providing opportunities for quality, affordable housing, now is the time to expand tax credits, public voucher programs, and create a funding mechanism to provide financing to non-profit community development corporations. There are five reasons to act now. First, it is smart financial investment. We have an opportunity to acquire properties at historically low prices and add them to a permanent affordable housing supply. Both single family homes and multifamily properties should be targeted for acquisition by nonprofit or public agencies. This opportunity will be missed, if we wait and the economy fully recovers and values rise. Right now we can maximize our investment.

Second, expanding federal rental programs and financing responsible buyers will improve the quality of life for renters and ensure that they are living in safe, quality housing. Providing a pathway to homeownership is important, of course, but owning a home is not right for everybody. There is also not significant demand for homes in highly impacted areas. This means that, if foreclosed properties in high impact areas are occupied, they are likely going to be occupied by renters. The only question will be whether the owners are committed to providing quality rental housing or are simply speculators. Getting as many of these properties as possible into the hands of publicly minded responsible owners, such as through the NSP program, is critical. Federal programs have quality and safety requirements that will provide another layer of oversight. Federal requirements help ensure the quality of the housing as well as its availability.

Third, we have the opportunity to address racial segregation and economic isolation. When expanding federal housing programs, we can target our investments. We now have an opportunity to create affordable housing in areas that are near good schools and jobs. We also

¹⁴ See John Kroll, *ebay auctions become flippers' tools*, Cleveland Plain Dealer (September 5, 2008) http://blog.cleveland.com/metro/2008/09/ebay_auctions_become_house_fli.html

have an opportunity to purchase properties near planned mass transit corridors. We have access to these properties now, but it will likely be financially infeasible in the future when the housing market recovers.

Fourth, we need the federal government to help finance or subsidize scattered site rental programs. There is wariness about taking on the challenge of scattered site rental. A number of local non-profit organizations have had past experience in managing scattered site programs, and found them to be logistically challenging and expensive to manage. They need support to ensure the program is sustainable and properly run.

The federal government can also encourage our local public housing authorities to use their experience. Many larger public housing authorities have operated scattered site public housing rental programs successfully for years; locally that is the case with both the Minneapolis Public Housing Authority and the St. Paul Public Housing Agency. In some cases, these PHAs have disposed of public housing units in the past, but remain eligible to access ongoing operating subsidies from those lost units, if new public housing units could be created.

Acquiring “bargain” properties in foreclosure could be a way to create new public housing units, access that stream of unused federal subsidies, and stabilize neighborhoods through quality ownership and management. A PHA could create public housing units in this way, and then combine them into a “mixed income” scattered site program in which the non-public housing units are rented at rent levels sufficient to cover operating expenses without further subsidy. To make this work, there needs to be some recognition that management of scattered sites are more costly, and that PHAs may need additional flexibility to make this approach feasible.

Finally, Congress should allow more flexibility in using Neighborhood Stabilization Program funds. Although there are common challenges facing every city that has been hard hit by foreclosures, needs often vary. As described above, there are many opportunities to expand affordable housing and help the quality of life for renters. Some experts have suggested that the financial woes plaguing the single family home ownership market may move in the future to also adversely affect commercial real estate, including many multifamily properties. If that’s the case, we can expect to see more apartment properties experience financial distress and move toward foreclosure. This is an opportunity for public-minded purchasers---similar to what we have seen with single family homes. Systems need to be created so that affordable housing providers can track such opportunities and take advantage of the chance to acquire these properties inexpensively and then operate them as permanent long term affordable housing.

WRITTEN STATEMENT OF CHRISTINA LOUDEN

CONSTITUENT, SECTION 8 VOUCHER RESIDENT

Hearing before the Subcommittee on Housing and Community Opportunity

Committee on Financial Services

United States House of Representatives

“The Impact of the Foreclosure Crisis on Public and Affordable Housing in the
Twin Cities”

January 23, 2010

Subcommittee on Housing and Community Opportunity

Testimony of:

Christina Loudon

2401 5th Street NE

Apartment #2

Minneapolis, MN 55418

My name is Christina Loudon, I am a 31-year-old single parent of two daughters: Ruby Rose, age 9 and Danista, age 5. I am currently unemployed but pursuing my Bachelor's Degree 'Online' in Business Administration and actively looking for employment.

❖ **Please discuss your background and your experience on the waiting list for housing assistance in Minneapolis.**

When I first applied for Section 8 assistance in May 2003, I was a single parent of one child and paying more than 50% of my income toward rent. During my 6 ½ years on the Section 8 waiting list, I had another child and managed to make my rental payments. On February 12, 2009, I lost my job due to health concerns. I have a pacemaker and suffered injuries in an automobile accident.

I was on the verge of losing my apartment and was unable to pay my rent. I did not receive child support or any childcare assistance and my income was significantly reduced to some welfare for my children and unemployment insurance. I called the Section 8 department in March 2009 and was informed that I was near the top of the waiting list and was finally approved for a Section 8 voucher in July 2009. I found an apartment and was leased up in November 2009.

❖ **Please describe your experience now that you have received a Section 8 housing voucher.**

My two-bedroom apartment rents for \$960 per month and my share of the rent is \$432 per month. This is less than half the rent I would be required to pay if not for my Section 8 assistance.

This housing assistance allows me to make sure my children have adequate food, clothing and shelter as well as being able to provide them with what they need for school and other day-to-day requirements.

My lower rent also enables me to be able to prepare for a better future. I am attending the University of Phoenix 'Online' and expect to receive a Bachelors Degree in Business Administration in 2011. I hope to be able to use this degree to find a better job and put myself in a position where I will no longer need Section 8 assistance and someone else who needs help can have the same opportunity that Section 8 has brought to me.

❖ **Please describe additional resources the City of Minneapolis needs in order to better provide affordable housing to individuals and families.**

I am not an expert in what Minneapolis needs or in affordable housing. I can tell you, that waiting 6 ½ years to receive assistance is not a realistic way to help people who so desperately need assistance. If I had lost my job two years ago, or experienced some other set back that would have impacted my income, my children and I could have been homeless. I think of all the families that I hear about who are homeless and wonder, knowing that the miracle I experienced may not be there for them. The waiting list is closed and I am told that thousands of other families may have to wait as long as I had to wait to get help. Thousands of others can't even apply for help. Minneapolis needs more Section 8 vouchers to help families, they need more landlords willing to accept Section 8 and they need more just plain old affordable housing.

❖ **Please discuss any other insights you have on the housing and social service needs of low- and moderate- income individuals and families in Minneapolis.**

There is an economic crisis and so many families are impacted by it. I know from my 6½ years on the waiting list that for low-income people, working or on welfare, there has always been an economic crisis. Rents of over \$1000 per month, car payments, insurance, food costs, clothing costs, medical and other day-to-day costs associated with just living, are almost impossible to meet with a low paying job or welfare benefits. It is hard to ask for assistance. I want you to know that assistance should be viewed as an investment. With the investment you are making in me and my family, you will see a big return. I will graduate college, find a good paying job and help my children, so hopefully, they will not have to experience the difficulties I have had to face.

WRITTEN STATEMENT OF CORA A. MCCORVEY

Executive Director/Chief Executive Officer

Minneapolis Public Housing Authority

**Hearing before the Subcommittee on Housing and Community
Opportunity**

Committee on Financial Services

United States House of Representatives



**"The Impact of the Foreclosure Crisis on Public and Affordable Housing
in the Twin Cities"**

January 23, 2010



Subcommittee on Housing and Community Opportunity

Cora McCorvey Testimony

I. Please discuss the programs managed and operated by the Minneapolis Public Housing Authority (MPHA).

MPHA Programs and Services:

► Low Rent / Public Housing Program:

Minneapolis Public Housing Authority (MPHA) has 6,207 public housing units comprised of 753 scattered site units, 184 family units in its Glendale family development, 4,958 units in its 41 highrise facilities and 312 public housing units that are part of various mixed financed developments throughout the City of Minneapolis and various neighboring metropolitan jurisdictions.

► Public Housing Wait List information:

- Public Housing Waitlist: 4,801 highrise and family applicants on wait list.
 - 2,081 on highrise wait list (this list is limited to one-bedroom applicants). Wait list currently open only to persons 50+ and disabled.
 - 2,720 currently on family waitlist (Family waitlist has been closed since June, 2007)

► Section 8 / Housing Choice Voucher Program:

MPHA has 4,444 Housing Choice Vouchers under lease, including 685 project-based vouchers

- MPHA intends to increase to 4,534 vouchers in 2010 plus ten additional homeownership vouchers for a total of 4,544.
- MPHA has 105 Veterans Affairs Supportive Housing (VASH) Vouchers
- 280 Moderate Rehabilitation Vouchers

- MPHA has 91 Preservation/Enhanced Vouchers

► **Section 8 Waitlist Information:**

- Over 15,000 families requested applications when the waitlist was last opened for two days in June 2008 and was immediately closed. Section 8 currently has 12,125 families on its waitlist.

► **Assisted Living & Housing with Services Programs (HWS):**

- The MPHA has Assisted Living and Housing with Services (HWS) programs in nine of its senior buildings. Through a partnership between MPHA, Hennepin County and the assisted living providers, program participants receive on site staffing two to three shifts per day, nursing services, medication monitoring, at least two meals a day seven days per week, housekeeping and laundry services, assistance with bathing, social and recreational activities, emotional and personal supports, social work services and other supportive activities as needed.
- MPHA developed a 'Slot Based Assisted Living' strategy for delivering services. This strategy provides assisted living services to residents in selected buildings without requiring the participant to move from their apartment to an assisted living unit. Instead the up to 40 assisted living slots are assigned to a specific building and residents aging in place or in need of assisted living can receive the services while remaining in their units. This 'first in the nation' strategy won a NAHRO Award of Excellence.
- In addition, MPHA developed the first 'culturally focused' assisted living public housing program in the nation to bring services to an elderly Korean population. The Agency successfully initiated a legislative appropriation for start-up funding for this project.
- MPHA's assisted living and HWS programs increase housing choices. Without these programs, frail elderly residents and applicants would not have public housing as a housing option. It also reduces costs and achieves greater cost effectiveness. Assisted living clients avoid nursing home placements, remain in units longer, receive supportive services and enjoy independent living.

- Eighty percent of assisted living clients remain in the program for at least six months, 64% remain for at least one year. This saves the State of Minnesota about \$3,000 to \$6,000 per month per assisted living client depending on the needs of the client.
- **Other assisted living benefits include:**
 - Fewer and delayed nursing home placements
 - Reduced turnover of units
 - Opportunity to market public housing
 - Enhances the quality of life for participants
 - Accessibility to assisted living services by other residents
 - Enhanced security and reduced need for additional security with the second and third shift assisted living and HWS staff

► **Publically Owned Transitional Housing (POTH)**

- MPHA, as a unit of local government, can utilize its status to serve as a 'pass through' recipient of funds and an ownership entity for collaborative efforts to address specialized needs in the community. MPHA has served in this capacity on at least four occasions.
- The State of Minnesota awards funds for target programs, but requires that the entity receiving the funds be a local unit of government and must be the owner if real property is involved. Through these initiatives, MPHA has supported the creation of two women's shelters, a transitional housing facility, an emergency housing center for homeless youth and a program that offers transitional housing for chemically dependent women.
- These POTH programs do not require MPHA to make Housing Choice Vouchers available or contribute other scarce resources. Participation does require a considerable amount of time and in-kind contributions from the Agency as these various POTH agreements are negotiated and the properties developed. Once the programs are developed and in place, MPHA must still meet minimum requirements for reporting and ensuring compliance by the partner organizations.

- However, the increase in shelter opportunities and the supportive services that can lead to self-sufficiency are compatible with MPHA's mission and have prompted the Agency on occasion to take on this responsibility as a POTH program owner.

► **Self Sufficiency**

- MPHA has two Self Sufficiency programs:
 - One related to its Section 8 Housing Choice Voucher program that complies with the HUD Self Sufficiency program requirements. Under this program, Section 8 Housing Choice Voucher participants establish a five-year goal including to become welfare free and full time employed. These participants receive an Escrow equaling the difference between their base rent and any increase in earned income for the up to 5 years they can be on the program. If they successfully meet their goals, the participant will be able to receive the full escrow with interest. Many utilize this resource toward a down payment on a home or to return to school.
 - MPHA also has a low rent MTW based FSS program. This program is specifically targeted to MPHA residents who meet the requirements for participation in MPHA's Homeownership programs. Participants must have the goal of homeownership and show progress toward meeting this goal. In addition to the Escrow support, the participants may utilize MPHA's down payment assistance program or a Section 8 voucher to assist with a mortgage payment for the up to 10 years.

II. Please discuss MPHA's progress in implementing the awards made available under the American Recovery and Reinvestment Act of 2009.

► **HUD Capital Fund Formula ARRA Award:**

- In March 2009, MPHA received a HUD Capital Formula ARRA Grant totaling \$18.2 million and to date has obligated 96% of these funds on 'Shovel Ready' projects identified in our Capital Plan. As of November 2009, MPHA's ARRA

funding has resulted in over 58 new jobs and helped preserve many others. HUD Secretary Donovan accepted MPHA's invitation to attend a 'Shovel Ready' event on July 10, 2009 and helped MPHA successfully launch its ARRA initiatives.

- In addition, MPHA purchased 20 foreclosed townhomes in a newly created mixed income community. MPHA utilized ARRA Funds to purchase this development and is exercising its Moving To Work authority to create a 'Rent to Own' project that will enable 20 families who meet public housing requirements to become first time homebuyers. This action helped stabilize a community threatened by the foreclosure crisis and positions MPHA families to be able to buy a home.

► **HUD Capital Fund Recovery Competition Awards:**

- **"Green" Senior Housing/Memory Care Development**

MPHA received funds to develop a 48-unit "green" memory care facility that will focus on providing housing and supportive services to frail elderly low-income residents who experience memory loss. MPHA has established a partnership with Hennepin County that will provide services to meet the needs of low-income elderly with memory loss. This development will utilize various energy efficiency methods and green technologies, including solar and geothermal. In addition, the structure will be built with "green" materials and designed to reduce the development's carbon footprint.

Grant Award: \$9.7 million ARRA funds and \$5.1 million in additional leveraged funds for a total project investment of \$14.8 million. Based upon a study by the Econsult Corporation, a private research group, the ARRA grant award should result in over 65 new jobs. The study identified that for each \$150,000 in capital funds expended, one full-time housing related job will be created.

- **Senior Center – North Minneapolis**

MPHA has proposed to design and build a state-of-the-art senior center in Heritage Park in North Minneapolis. MPHA has established

partnerships with Northpoint Health and Wellness Center, Minneapolis 'Y', Augustana Services, Hennepin County, the City of Minneapolis and others to provide an array of services to elderly residents living in North Minneapolis. These services include medical care, adult daycare and social and recreational opportunities.

Grant Award: \$10.5 million ARRA funds and \$3.8 million in additional leveraged funds for a total project investment of \$14.3 million. Based upon a study by the Econsult Corporation, a private research group, the ARRA grant award should result in over 70 new jobs.

- **Scattered Site "Green" Initiative**

MPHA is proposing to make significant energy improvements in over 733 scattered housing sites. These improvements will replace outdated systems and reduce energy and water consumption. In addition, these strategies will enhance operational efficiencies, result in significant energy saving costs, add to the long-term preservation of our housing resources and reduce the agency's carbon footprint and consumption of energy. This initiative will benefit MPHA, its residents, and taxpayers.

Grant Award: \$11.6 million ARRA funds dollars and \$1.1million in additional leveraged funds for a total project investment of \$12.7million. Based upon a study by the Econsult Corporation, a private research group, the ARRA grant award should result in over 77 new jobs.

III. Please discuss any initiatives MPHA is undertaking related to Foreclosure Prevention.

► **Saving Home:**

- MPHA has assisted over 185 families to become first time homeowners under its various homeownership programs.
- Under MTW, MPHA's homeownership initiatives, Home Ownership Made Easy (HOME) and Moving Home (Section 8 Homeownership Demonstration Program) was revised and combined with a new Foreclosure Prevention Initiative 'Saving Home' that is designed to assist

low-income families participating in MPHA's Homeownership Programs in avoiding foreclosure.

- MPHA entered into a partnership with Person to Person, a non-profit agency, to assist families with their mortgage readiness goals. MPHA also entered into an MOU with Twin Cities Habitat for Humanity who will select North Minneapolis Families for participation in "Saving Home", where MPHA will provide Section 8 Mortgage Assistance to families facing foreclosure. In addition, 'Saving Home' has specific provisions to provide up to an additional two years of mortgage assistance for any family who has purchased a home through any of MPHA's Homeownership programs and is at risk of foreclosure.

► **MPHA Rent To Own Program:**

- As noted above, MPHA purchased 20 townhome development units and intends to create a Rent-to-Own Initiative where qualified public housing residents and Section 8 participants, as well as MPHA and City of Minneapolis employees who qualify for public housing, will have an opportunity to initially rent and subsequently purchase these units.

► **MPHA and Project for Pride in Living (PPL) Foreclosure Stabilization Project:**

- HUD has just approved a demonstration program partnership between MPHA and Project for Pride In Living (PPL) recipient of a Neighborhood Stabilization Program (NSP) grant from the City of Minneapolis to purchase and rehab foreclosed rental properties in designated 'at risk' neighborhoods throughout the City and offer the units for rent to very low income families. This project would allocate up to 21 Housing Choice Vouchers to be project based at the selected properties in an effort to stabilize those properties and contribute to the well-being of the surrounding neighborhood.
- Through the MPHA / PPL Foreclosure Stabilization Project Based Voucher Demonstration Program, 21 foreclosed and 'at risk' properties will be renovated and receive operational support to preserve the NSP investment while at the same time 21 families will be provided a long

term affordable housing opportunity. This marriage of two federal resources to preserve 'at risk' properties will help distressed neighborhoods and provide a replicable strategy for neighborhood stabilization.

IV. Is MPHA Seeing Increased Need for Housing Assistance Due to Foreclosure Crisis? Other Factors Driving Increased Need for Housing Assistance.

► Waiting Lists Closed

- As noted, MPHA's Public Housing Waiting List for families has been closed since June 2007, and the number of families remaining on the list is over 2,700. MPHA closed its Highrise Waiting List to persons under 50 who are not disabled in November 2008. MPHA's Section 8 Waiting List was only open for 2 days in June 2008, with over 15,000 requests for applications. Given this reality, it is difficult for MPHA to assess the specific impact of foreclosures on the need for housing.

► Resource Room Contacts

- Through its VISTA Program, MPHA staffs a Housing Resource Room and provides housing referral information to those who contact the Agency at its 1001 Washington Avenue North administrative offices.
 - In 2009, MPHA has averaged over 950 contacts per month from persons seeking affordable housing opportunities. Of these contacts, over 300 per month experience language and cultural barriers.

► Unemployment/Economy

- Minnesota is faring better than the nation as a whole when it comes to unemployment but has recently reached a rate in excess of 7% with minority unemployment doubling this rate. This data does not include the underemployed or those who have given up seeking employment. These families are among those who comprise our waiting lists and who are crying out for assistance with their housing costs.

V. Please discuss the need for housing assistance in Minneapolis and MPHA's ability to meet the demand.

► Need for Housing Assistance

The need for affordable housing in our community is overwhelming. As noted previously, when MPHA opened its Section 8 Waiting List in June 2008, it received over 15,000 requests for applications. The volume of online requests was so heavy that the system crashed numerous times, making this avenue to application more difficult. Section 8 staff were available to ensure applicants who were unable to submit online be offered the alternate paper application. The Metropolitan Council, a suburban housing authority, opened its waiting list a year before MPHA has had similar overwhelming requests for assistance.

These two opening of waiting lists occurred before the economic crisis reached its peak in 2009, and before the significant increases in unemployment. MPHA's over 950 housing resource room contacts per month and other data by the City, County and other affordable housing groups highlight the lack of and the need for affordable housing.

- In the Minneapolis metropolitan area, there are over 125 homeless shelters and transitional housing programs with about 3400 bed per night. These programs provide emergency housing for individuals and families.
- In 2008, Wilder Research reports that over 13,000 people stayed in these programs.
- Wilder estimates that on any given night there are over 4,700 persons who are homeless in the metropolitan area with over 45% being children.

► MPHA's Ability to Meet Demand

MPHA's public housing programs average about a 20% turnover per year, meaning that 1,100 units are available each year and in the Section 8 Housing Choice Voucher program about 35 vouchers turnover each month or 420 per year.

MPHA is also challenged in being able to meet the high demand for affordable family housing in Minneapolis. With the Hollman Consent Decree, we abolished 770 units of family housing and replaced them throughout the suburban community. This, however, resulted in fewer public housing family homes in Minneapolis. Since that time many large families, especially immigrant families, have moved into Minneapolis and do not have access to rental housing that can accommodate their needs.

At this rate of availability, MPHA is woefully unable to effectively respond to the demand for affordable housing. We are proud of the initiatives we have undertaken to help families become self-sufficient and how we utilize our resources to enhance the quality of housing we provide. However good our services and high the quality of the housing we provide, our resources and HUD limitations do not allow an increase in quantity. MPHA is ready and able to move to provide additional housing if HUD provides both the authority to increase its housing stock and the funding to operate it and there is local political support.

VI. Please discuss the greatest challenges faced by MPHA.

► MPHA's greatest challenges in providing safe, decent and affordable housing in our community include:

- The significant gap between our unmet Capital needs and our allocation of Capital funds: MPHA conducted a comprehensive needs assessment in 2006 and identified \$225 million in unmet capital needs. This needs assessment was updated in 2009 and the unmet needs increased to over \$245 million. Our Capital Fund allocation ranges from about \$11 to \$14 million per year. This difference between need and investment puts MPHA's portfolio at risk.
- Baby Boomers/Aging: The aging population poses significant challenges for MPHA. Each year, our elders grow more frail and vulnerable. MPHA does not have the resources to provide social services for the elderly in our highrises. State and Federal programs and funding are not available to address these needs, yet our seniors do not have access to alternatives, and thus risk their housing as they struggle to maintain their homes in compliance with their lease.

- The State of Minnesota is required to have a balanced budget. The economic crisis and increased unemployment impact the revenue to the state and in turn, the state is reducing funding for programs and services that in the past have assisted residents with their special needs.
 - For example, public housing families who are on TANF (MFIP in Minnesota) receive a reduction in their benefits if they live in public housing. This reduces income for a low-income family and reduces MPHA's income. The state has also cut medical and financial benefits to very low-income individuals and elderly. In 2010, the state is facing very large deficit and this will likely result in increased cuts to programs and services that assist our families.
- The loss of programs and services that support our residents, especially the elderly, increase the isolation and the desperation of our residents. They fear alerting MPHA to struggles or problems that may put them at risk of losing their homes, and so become less engaged with the agency and more vulnerable.

VII. Please discuss what other resources are needed from the Federal level.

- MPHA believes with increased Annual Contribution Contract (ACC) authority it could partner with the City, County and State to acquire foreclosed homes, tax forfeiture properties or adopt other strategies that would increase the number of affordable housing units in the community and stabilize 'at risk' neighborhoods.
- In addition to operational dollars provided by increased ACC authority, MPHA needs development dollars and authority from HUD to create new affordable housing opportunities, including mixed financed developments, which would allow MPHA to restructure and integrate public housing more fully into neighborhoods and communities.

Written Testimony of Deputy Assistant Secretary Erika Poethig

Office of Policy Development & Research

U.S. Department of Housing and Urban Development

**“The Impact of the Foreclosure Crisis on Public and Affordable Housing in the Twin
Cities”**

**Hearing before the U.S. House of Representatives Subcommittee on Housing and
Community Opportunity**

January 23, 2010

Minneapolis, Minnesota

Thank you Chairwoman Waters, Ranking Member Capito, Congressman Ellison and members of the subcommittee for inviting me to testify before you, today. Today’s discussion is an important one, given the complex changes our housing market has undergone over the past two and a half years, the new challenges we face as a result of the housing market turmoil and foreclosure crisis, and the structural challenges which have persisted through collapse and this current period of stabilization. My testimony will address the current state of the U.S. rental housing market, the impact of the foreclosure crisis on the rental market, including the local market here in Minneapolis, HUD’s efforts to stabilize communities impacted by the foreclosure crisis and restore leadership in delivering rental housing assistance to low-income Americans.

Rental Housing Affordability across the Nation and in the Minneapolis-St. Paul Region

Recently, well-publicized national indicators have pointed to increasing stress in the U.S. rental housing market. Vacancy rates are on the rise as a result of dampened demand and additional supply repurposed from the ownership market. Spreads between asking rents and effective rents are widening, asking rents are now \$65 higher than effective rents (6.6% of the effective rent) - the largest gap over the past four years. While some new renters have been the beneficiaries of this softness, drawing concessions from distressed property owners, the budgets of many more low-income renters have been strained as household incomes fall, as a result of unemployment and lost hours worked. Softness in the broader rental market has not substantially eased affordability concerns for low-income renters. Loss of income stemming from the recession is likely offsetting affordability gains from declining rents. Vacancies in HUD's assisted stock remain considerably lower than market levels, and the number of cost burdened low-income renters is on the rise. Based on estimates from the 2008 American Community Survey, 8.7 million renter households paid 50% or more of their income on housing, up from 8.3 million renter households in 2007.

Speaking in terms of a single national housing market ignores important nuances underlying the national picture. The cost of shelter burdens households differently across markets. Tight market conditions, created by constrained supply and strong demand, in communities such New York, Los Angeles and San Francisco strains affordability for renters up the socio-economic ladder. In other markets, affordable housing for low and moderate income renters is more readily available, but is often located in neighborhoods with the highest concentrations of

poverty and the least economic opportunities. Persistent across virtually all housing markets in the U.S. is a shortage of rental housing units that are affordable and available to extremely low-income renters. The American Housing Survey indicates there are as few as 44 affordable and available units per 100 extremely low-income renters in the U.S.¹

In the Minneapolis-St. Paul Metro area, housing affordability for extremely low-income households is similarly scarce. Extremely low-income households are those earning less than 30% of the Area Median Income, or approximately \$25,000 for a family of four. The shortage of affordable and available units for extremely low-income in the Minneapolis-St. Paul metro region mirrors the national shortage.² However, for low and moderate-income renters, the Minneapolis-St. Paul region remains considerably more affordable than similarly sized coastal metros. While there appears to be no absolute shortage of rental units affordable to households earning more than 30% of the Area Median Income, the availability of affordable rental housing in safe, opportunity-rich communities remains a concern.

Recognizing that rental affordability at the low-end of the rental market is a crucial challenge for the nation and its many housing markets, HUD has reasserted a leadership role as a catalyst for expanding the availability of decent and affordable rental housing. If this crisis has taught us anything, it's that this nation needs a balanced, comprehensive national housing policy – one that supports homeownership, but also provides affordable rental opportunities, and ensures that nobody falls through the cracks. Our 2010 budget restores much needed balance to the nation's

¹ Data Source: American Housing Survey National Sample 2007

² PD&R tabulations of American Community Survey Public Use Microdata Sample (PUMS) 2008; HUD 2008 Income Limits

Note: Figures are adjusted for household size as well as the number of bedrooms, reported here for the Minneapolis-St. Paul-Bloomington, MN-WI Core-Based Statistical Area

housing policy. Since our policies do not operate in a vacuum, it is important to consider how rental housing is impacted by broader housing market dynamics.

Foreclosure and Rental Affordability

The relationship between this foreclosure crisis and the dynamics of our rental markets are not well understood, even by housing experts. It is particularly difficult to untangle the impact of foreclosure from broader recessionary effects. There is considerable anecdotal evidence and some quantitative evidence suggesting that families who experience foreclosure are opting to “double up” with friends and relatives, thereby depressing demand in the rental market and potentially contributing to rising vacancies. This “doubling up” may be an important short-term transitional fix to avoid homelessness, but poses serious concerns about overcrowding if these households are unable to find affordable rental housing down the road. In the short term, many households who have gone through foreclosure will be better suited as renters and will need an affordable rental option. The net impact of the foreclosure crisis on the affordable rental housing stock is still unclear. In the same way that foreclosures on single-family properties have created a shadow inventory of homes in the REO stock of financial institutions, foreclosures on multifamily properties have removed existing rental properties from the available rental supply. However, there have also been additions to the rental stock from newly constructed units originally intended to be condos and the conversion of other condominiums back to rental units.

In the Minneapolis-St. Paul area, a substantial portion, nearly 20 percent, of the rental stock is in single-family homes, and another 12 percent of rental units are in 2-4 unit buildings.³ Research from the Humphrey Center at the University of Minnesota suggests that as much as 60 percent of buildings with foreclosures in 2006 and 2007 were renter-occupied.⁴ Recognizing the tumultuous experience these renters face during foreclosure, Congressmen Ellison introduced and President Obama signed into law the Protecting Tenants at Foreclosure Act in 2009. This Act protects renters in foreclosed properties by allowing them to fulfill their lease, unless the property is sold to a purchaser occupying the unit as a primary resident. Additionally, tenants must receive a warning at least 90 days in advance of an eviction notice. Also assisting renters, the Neighborhood Stabilization Program (NSP) funds *can and are* being used to support the creation of rental units.

Rental affordability is a key priority of Secretary Donovan, but HUD also remains focused on restoring stability to the nation's housing market. First through Recovery Act funding, and continued in the 2010 budget, HUD is creating jobs, making homes more energy efficient and stabilizing neighborhoods, while laying a new foundation to make America competitive in the 21st century economy. I'd like to describe how HUD's investments through the Neighborhood Stabilization Program are strengthening and stabilizing neighborhoods in Minneapolis as well as across the country.

Neighborhood Stabilization Program Funding

³ Data Source: American Community Survey 2008

⁴ Ryan Allen "Unraveling the American Dream: Foreclosures in the Immigrant Community of Minneapolis." Humphrey Institute for Public Affairs, University of Minnesota, March 2009.

The first round of the Neighborhood Stabilization Program (NSP1) was authorized under HERA in 2008. Through NSP1, HUD allocated \$3.92 billion to 309 states, territories, and local governments to help stabilize communities that have suffered from significant foreclosures and abandonment. The funding distribution was based on a formula allocation.

NSP funds may be used for a range of activities that include, but are not limited to:

- Establishing financing mechanisms for the purchase and redevelopment of foreclosed homes and residential properties;
- Purchasing and rehabilitating homes and residential properties abandoned or foreclosed;
- Establishing land banks for foreclosed homes;
- Demolishing blighted structures; and
- Redeveloping demolished or vacant properties.

While NSP1 did not specify if the units produced or preserved through activity be rental or owner-occupied, it did mandate that at least 25 percent of the funds appropriated be used to assist individuals or families whose incomes do not exceed 50 percent of the area median income. In addition, all activities funded by NSP must benefit low- and moderate-income persons whose incomes do not exceed 120 percent of area median income.

In 2008, HUD awarded the State of Minnesota, the cities of St. Paul and Minneapolis, and Anoka, Dakota, and Hennepin counties more than \$57 million in NSP1 funding. About 52 percent of units that are expected to be preserved or produced by Minneapolis's NSP1 funding will assist households making at or below 50 percent of the area median income. Approximately 26 percent of funding awarded to the State of Minnesota is expected to serve low-income households, earning at or below 50 percent of the area median income.

The American Recovery and Reinvestment Act of 2009 authorized HUD to administer an additional \$1.93 billion in NSP funding, commonly known as NSP2. Last week, the Secretary awarded the City of St.-Paul \$18 million in NSP2 funds. The City of Minneapolis was awarded \$19.5 million in a consortium agreement with City of Brooklyn Park Community Development Department, Hennepin County Housing Community Works, and Transit Department. This region's approach to neighborhood stabilization is a model of coordinated, cohesive community development that makes efficient use of existing housing development capacity and sets a high bar for providing jobs and other benefits for members of the affected communities. Working in partnership with the Twin Cities Community Land Bank LLC, an affiliate of the Family Housing Fund created in May 2009, these jurisdictions have launched an innovative approach to using their NSP 1 and NSP 2 allocations that utilizes the Land Bank as an intermediary to identify, purchase and coordinate the disposition of foreclosed properties to a pre-identified group of nonprofit developers as well as the City of Minneapolis. To tap private market resources, the Land Bank also is working with responsible for-profit developers that are engaged in community revitalization efforts in the City of Minneapolis. Last October, my office of Policy Development and Research highlighted land banks as a tool to addressing foreclosures in report called "Revitalizing Foreclosed Properties with Land Banks.". With additional funding leveraged from private and philanthropic sources, the Minneapolis-Brooklyn-Hennepin Consortium will use 25% of their NSP2 funding to support households at or below 50% of the area median income.

Impact of Foreclosures on Renters in Connection with other HUD programs

Historically public housing authorities have had little role in the foreclosure crisis. However, a new program allows PHAs to acquire HUD REO foreclosed properties and either convert them to rental properties or sell them through the Section 8 Homeownership program, which allows

Section 8 renters to apply their vouchers to monthly homeownership costs like mortgage payments and maintenance expenses. This program is currently being offered in many of the Gulf states, but not Minnesota.

HUD's multi and single family mortgage insurance programs do not show much activity in the interaction of renters and foreclosures. There are currently no foreclosed HUD insured multifamily buildings in Minneapolis. Indeed, in the past two years there has only been one completed foreclosure on a HUD insured multifamily building in Minnesota. However, there are three projects in Minnesota that have recently initiated foreclosure proceedings, which are located in Duluth, Granite Falls, and Brooklyn Center, a suburb of Minneapolis.

In the unlikely event of a foreclosure on HUD insured multifamily properties, HUD determines the use and affordability restrictions for the buildings once HUD sells the properties. In order to preserve affordable housing, HUD mandates that the purchaser maintains the property as rental housing with affordable rents to households earning at or below 80 percent of the area median income for 20 years. The purchaser must also renovate the building to meet HUD standards, including removing any lead-based paint, asbestos or mold hazards. Finally, the purchaser cannot discriminate against prospective tenants with Section 8 vouchers and must maintain any existing Section 8 HAP contracts.

Of the 100,000 single family mortgages HUD insures in Minnesota, HUD has acquired only 719 homes as a result of a foreclosure. Forty of these so-called "HUD Homes" are located in Minneapolis, twenty of which are under contract to sell. HUD is aware of delays in sales of some of the HUD Homes in the Minneapolis area. Our Office of Single Family Asset

Management is working with its contractor to improve the contractor's performance and the face it presents to prospective buyers of these homes.

While these homes may include up to four units, it is highly unlikely that renters have been significantly impacted by these foreclosures. While in inventory, HUD Homes that were previously owner-occupied are usually not rented out, nor does HUD sell them as rental properties because the primary objective of the single family property disposition program is to expand homeownership opportunities, strengthen neighborhoods, and to ensure a maximum return to the mortgage insurance fund, as determined by HUD in 24 CFR 291.1(a)(2).

"The purpose of the property disposition program is to dispose of properties in a manner that expands homeownership opportunities, strengthens neighborhoods and communities, and ensures a maximum return to the mortgage insurance funds."

FHA and HUD's Office of Community Planning and Development are coordinating activities to prioritize HUD Homes for NSP grantees. This includes mapping FHA foreclosures over NSP 1 and NSP2 target areas to help grantees prioritize the purchase of these homes. The HUD Homes program features a "priority period" for most sales, during which the home is made available only to purchasers who will occupy the home as their primary residence. Establishing this preference for owner-occupants is critical to deter speculators who only contribute to neighborhood instability.

The Minnesota Housing Finance Agency demonstrated a unique way to use existing Federal HOME grants to create an opportunity from the foreclosure crisis. Minnesota Housing combined \$9.2 million of HOME funding with other sources to create the HOME II Homeowner Entry Loan

Program (a.k.a. HOME HELP). This program provides downpayment and entry assistance to first time homebuyers making at or below 80% of the area median income to purchase foreclosed properties. As of the end of 2009, 252 out of the 613 assisted loans went to the purchase of foreclosed homes in Minnesota. In Minneapolis, HOME HELP assisted a total of 69 loans, 23 were for purchases of foreclosed homes.

Conclusion

And so, thank you, Madame Chairwoman, for the opportunity to participate in today's hearing and for your continued leadership in supporting the Neighborhood Stabilization Program, efforts to preserve affordable rental housing and support for responsible community development.

I hope the information that I presented to you today provided you with a sense of the broader housing market dynamics and how those are playing out in the City of Minneapolis.

I am happy to answer any questions.

Testimony of Thomas Streitz, Director Housing Policy and Development

Subcommittee on Housing and Community Opportunity Hearing
United States Congress Committee on Financial Services

**The Impact of the Foreclosure Crisis
on Public and Affordable Housing in the Twin Cities**

Panel 1:

Submitted by The Honorable R.T. Rybak, Mayor, Minneapolis, Minnesota
The Impact of Foreclosures on the City of Minneapolis

Submitted and Presented by Thomas Streitz, Director Housing Policy and Development,
Minneapolis Department of Community Planning and Economic Development (CPED)
Concerns about Implementation of the Neighborhood Stabilization Program

Saturday, January 23, 2010

Minneapolis Central Library
Pohlad Hall
300 Nicollet Mall
Minneapolis, MN 55401

Community Planning & Economic Development
 Crown Roller Mill, 105 Fifth Ave. S.
 Suite 200
 Minneapolis, MN 55401



January 23, 2010

Subcommittee on Housing and Community Opportunity, United States Congress Committee on Financial Services
The Impact of the Foreclosure Crisis on Public and Affordable Housing in the Twin Cities

Panel 1:

Submitted by The Honorable R.T. Rybak, Mayor, Minneapolis, Minnesota
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 Minneapolis Department of Community Planning and Economic Development (CPED)
 Concerns about Implementation of the Neighborhood Stabilization Program

Honorable Chairwoman Waters and Members of the Subcommittee, I would like to express my appreciation on behalf of the City of Minneapolis and our partners for the opportunity to share our viewpoint and recommendations on the successful implementation of the Neighborhood Stabilization Program in Minneapolis Foreclosure Recovery efforts to provide the necessary government intervention in impacted areas to tip the market back towards healthy. I would like to thank the Subcommittee on Housing and Community Opportunity for bringing NSP implementation issues forward. I would also like to thank the United States Department of Housing and Urban Development, not only for awarding funds to Minneapolis, but for the changes they made in developing the Neighborhood Stabilization Program in response to our program suggestions to improve the feasibility of carrying out the program in our local housing markets.

I am currently Housing Policy & Development Director for the City of Minneapolis. Prior to this position I served as Deputy Executive Director of the Minneapolis Public Housing Authority (MPHA), managing and providing strategic leadership to the largest provider of affordable housing in Minnesota. Prior to my service at MPHA, I was a government relations attorney for the Legal Aid Society of Minneapolis, advocating and lobbying on behalf of low-income clients and nonprofit organizations. I was the co-counsel and lead implementation attorney in the Hollman v. Cisneros civil rights lawsuit and resulting Consent Decree. That decree ultimately established Heritage Park, the model development in north Minneapolis. I also served for six years as legislative counsel for the U.S. Senate. I live in Minneapolis and was a Humphrey Policy Fellow at the University of Minnesota, earned a Master's degree in law from Georgetown University, a J.D. from Seattle University and a B.S. from the University of Nebraska.

Overview and impact of foreclosures in Minneapolis

The City of Minneapolis focus on prevention, reinvestment and market reposition in 2009 and beyond will lead to market recovery in our communities. The Minneapolis foreclosure recovery plan is a strategic and timely government intervention for prevention, reinvestment and repositioning the market place only to the extent necessary to "tip" the market toward restoring a healthy housing market.

The NSP resources are critical to addressing the foreclosure crisis in our neighborhoods: however, the current allocation is only a first step when looking at the challenges faced by our communities most highly impacted by foreclosures. The stability of these Minneapolis neighborhoods are significantly and uniquely impacted by the high percentage of decline in property values, the level of fraudulent mortgage activity, and the disproportionate effect of foreclosures on people of color.

One notable manifestation of the high level of fraudulent activity in Minneapolis was the investment company known as T.J. Waconia which purchased and flipped more than 150 homes. The City, with the assistance of the County, was successful in prosecuting the principals who are now in federal prison. The homes that were a part of this scam have now been recovered and are being rehabilitated for sale to homeowners.

Residential mortgage foreclosures continued to rise in Minneapolis until 2009 when decreases occurred. The decreases are partially due to lender's voluntary moratorium on foreclosures and the increase foreclosure prevention loan modifications or short sales and similar activities. In 2005, Minneapolis had 863 mortgage foreclosure sales. In 2006, 1,610 homes in Minneapolis went to foreclosure sale, over half of them in North Minneapolis. In 2007, 2,895 homes went through foreclosure sale; 54.7% were in the three Northside wards of the City. In 2008, there were 3,077 foreclosures. Foreclosures decreased in 2009, with 1,896 through the end of October. Many of these foreclosures are on investment properties. Minneapolis neighborhoods hardest hit by foreclosures are in South Central, Northeast and North Minneapolis. (See Attachment: City of Minneapolis Foreclosures by Ward, 1st, 2nd and 3rd Quarter 2009).

My testimony will now address the following specific issues or questions raised by the Committee:

The Neighborhood Stabilization Program (NSP) in Minneapolis and how it is tailored to address the foreclosure crisis in the City

NSP is the core component of the Minneapolis foreclosure recovery plan, a strategic and timely government intervention for prevention, reinvestment and repositioning the market place only to the extent necessary to "tip" the market toward restoring a healthy housing market. Minneapolis strategies to recover a healthy housing market include:

- Prevention—Continue foreclosure prevention outreach and counseling;
- Reinvestment—Pursue aggressive property acquisition and promote property development; and
- Repositioning—Engage in community building and marketing efforts.

The Minneapolis foreclosure recovery plan identifies over 20 neighborhoods that are hardest hit by foreclosure for strategic investment of NSP resources to dramatically impact blocks in these neighborhoods to protect public and private investment and to ultimately restore a healthy housing market. In order to achieve this impact, Minneapolis is collaborating with the development community with significant involvement from general contractors, property management companies, material suppliers, and marketing and real estate professionals.

Minneapolis received \$14 million in NSP resources. Minneapolis has dedicated an additional \$3 million of non-federal funding to the Minneapolis Advantage Program to assist households with down payment and closing cost assistance in the purchase of foreclosed properties for owner-occupancy. Minneapolis, through a consortium agreement with Hennepin County and City of Brooklyn Park, was awarded \$19.5 million in NSP2 resources, to be allocated to eligible activities.

Minneapolis' NSP1 reinvestment activities include demolition of over 200 blighted properties, acquisition and land banking of 120 properties, and rehabilitation of 236 units to return them quickly to provide homes in neighborhoods hardest hit with foreclosures. Financing mechanisms and down payment and closing cost assistance through the Minneapolis Advantage Program will provide home ownership opportunities for 300 households who purchase foreclosed homes. With additional funding, the City of Minneapolis and our community partners will be poised to put over 700 vacant and foreclosed units back to use over the next 1-4 years. (See attached chart: Minneapolis Foreclosure Recovery Plan)

NSP Eligible Activities:

A. Establish **financing** mechanisms for purchase and redevelopment of foreclosed upon homes and residential properties

- B. **Purchase and rehabilitate** homes and residential properties that have been abandoned or foreclosed upon, in order to sell, rent, or redevelop
- C. Establish **land banks** for homes that have been foreclosed upon
- D. **Demolish** blighted structures
- E. **Redevelop** demolished or vacant properties

A description of the Minneapolis NSP eligible activities, the number of properties impacted and the amount of NSP funds proposed for each activity is summarized below.

Activity A. Financing/Down Payment and Closing Cost Assistance: Minneapolis Community Planning and Economic Development (CPED) will make down payment and closing cost assistance available to meet the affordability gap in homeownership opportunities for homebuyers, which may include buyers at the HUD required 50% of area median income. In addition, the City of Minneapolis have secured an additional \$2.5 million in non-federal funds to leverage the NSP funds.

Activity B. Purchase/Rehab: CPED will use NSP funds to provide development value gap financing to non-profit developers to cover the difference between the cost of purchase and rehab of a foreclosed and/or abandoned property and the sale price. The property will be sold to an income-qualified owner-occupant or rented to an income-qualified tenant. This strategy will return residents to neighborhoods hardest hit by foreclosure.

Minneapolis is working with nine non-profit developers, they are: Habitat for Humanity, Project for Pride in Living, City of Lakes Community Land Trust, Neighborhood Housing Services of Minneapolis, Urban Homeworks, Alliance Housing, Powderhorn Residents Group, Greater Metropolitan Housing Corporation, and NH Housing.

Of the NSP1 purchase/rehab units, 130 will be targeted to households at 50% area median income (\$40,450 for a family of four), to meet NSP requirements. Approximately 35% of the units will be rental and 65% will be ownership.

Activity C. Land Banking: CPED will strategically acquire foreclosed or abandoned properties that cannot be rehabbed due to cost or condition, demolish them and hold them as vacant parcels (land bank) until the market is ready to absorb new development. This approach will assist with the over-abundance of properties in the market.

Activity D. Demolition: The Department of Regulatory Services will address properties on the City's Chapter 249—Vacant and Boarded Building list that require demolition. This activity is necessary to drive the market back towards a healthy housing market.

Activity E. Redevelopment: CPED will support the redevelopment of demolished or vacant properties. The current strategy looks to redevelop 19 housing units.

Administration: NSP will be locally administered by City staff and monitored for compliance with federal and state requirements. Administrative costs incurred under the program are covered under an allowable administrative fee of ten percent.

The Minneapolis foreclosure recovery plan is a strategic and timely government intervention for prevention, reinvestment and repositioning the market to the extent necessary to "tip" the market toward restoring a healthy housing market.

Minneapolis has used data, mapping and other strategies to locate and target areas of greatest need

The data presented for NSP demonstrate that the high number of vacancies and foreclosures across the target areas, in combination with under-maintained housing, and concentrated subprime and fraudulent lending are creating significant neighborhood instability. The data points to a real need to bring homeowners back into these

neighborhoods in rehabilitated housing that provides for sustainable long-term homeownership. For this reason, the City will emphasize aggressive acquisition and rehabilitation in combination with homeownership incentives to quickly return stable long term residents to the target area neighborhoods.

The other key component of the Minneapolis recovery effort is to gain control of vacant properties and then manage the disposition and redevelopment of these properties at a scale large enough to build confidence and stimulate reinvestment. The need for this activity is demonstrated by the large inventory of bank-owned and investor-owned property, mostly seen in the urban core and suburban census tracts. Properties will be acquired, demolished if necessary, and land banked for future development. With the help of the Twin Cities Community Land Bank, Minneapolis will have an effective way to manage the disposition of properties over time to ensure long-term neighborhood stability.

The City of Minneapolis has strategically targeted resources to areas of greatest need, primarily based on average foreclosures and vacancies by census tracts. (See Attachment Minneapolis First Look, NSP Eligible Area Map)

Minneapolis is putting NSP1 dollars to work - to date, 43 percent of first round of NSP funds has been both obligated by Minneapolis.

Activity	Obligated (Dollars)	Obligated (Units)
Activity A—Financing	\$0.00 Million	0
Activity B—Purchase & Rehabilitate	\$1.97 Million	54
Activity C—Land Banking	\$0.82 Million	39
Activity D—Demolition	\$1.62 Million	103
Activity E—Redevelopment	\$0.65 Million	19
Administration	\$1.02 Million	0
Total	\$6.08 Million	215

Minneapolis will meet the requirement that not less than 25 percent of NSP funds will be used towards housing families at or below 50 percent of area median income

In Minneapolis, the majority of the foreclosures are concentrated in existing low income CDBG target areas where the average median income of the residents is 71% of AMI. Activities performed in these areas will provide both a direct and indirect benefit to residents whose incomes are at or below 120% of AMI and in most areas the average income of the residents is below 80% AMI. All programs will be targeted to households at or below 120% of AMI.

Minneapolis will use 25% of the total funds they receive to provide housing to households at 50% AMI. The City will partner with non-profit community development organizations to meet the requirement for providing homes to households whose incomes do not exceed 50% of AMI. Examples of models that will be utilized to provide long-term affordable housing to families at or below 50% of AMI include:

- Reduce home construction costs: Utilize in-kind services and donations to reduce the construction costs of the homes
- Specialized mortgage products: Utilize specialized mortgage products held by non-profit organizations
- Land trust: Sell a home to a family at an affordable price, with a non-profit holding the land and offering a 99 year ground lease.
- Buyer assistance: Provide affordability assistance to buyers using NSP2 funds to bring the mortgage amount to a level affordable to the family. The loan term will be based on the HOME required periods of affordability.

Minneapolis has located and been able to purchase real estate-owned (REO) properties and ensured the participation of banks, and other owners of REOs

Minneapolis uses two novel concepts in its efforts to purchase REO properties—*The First Look Program* and the *Twin Cities Community Land Bank*. The *First Look* launched in 2008 and piloted in the Twin Cities is a testament to the coordinated approach to combating the foreclosure crisis that exists in the Twin Cities. The *Twin Cities Community Land Bank* is a public-private venture with a focus on community re-building objectives. As a non-governmental entity, it is designed to be quicker to respond and more flexible than a government entity, thereby being positioned to compete with undesirable investors whose bottom line is profit to self and not necessarily the community.

Minneapolis was one of the first cities in the nation to partner with National Community Stabilization Trust to pilot a new, innovative national program to address the housing foreclosure crisis - the First Look Program. A key component of our foreclosure recovery plan, the First Look Program will help restore neighborhoods hit hard by foreclosures by allowing the City the opportunity to acquire foreclosed properties before they hit the open market.

The First Look Program is coordinating the transfer of real estate-owned properties from financial institutions nationwide to local housing organizations, in collaboration with state and local governments. Lenders — Wells Fargo, CitiGroup, Chase and others—will make the properties available pre-market at adjusted pricing. A key component of recovery efforts is to gain control of properties and then manage the disposition and redevelopment of those properties at a scale large enough to build confidence and stimulate investment. The First Look program will provide this key component to recovery. It is expected that First Look lenders will assist in providing the opportunity to access nearly eighty percent of the foreclosed homes in Minneapolis pre-market.

Minneapolis was chosen for the *First Look* pilot program because of our innovative work to fight foreclosures, which includes collaboration between government, nonprofits, developers, real estate brokers and community groups and the dedication of financial lenders who are helping restore healthy neighborhoods. The First Look Program was developed by the National Community Stabilization Trust, a consortium of nonprofit housing and community development organizations (Enterprise Community Partners, the Housing Partnership Network, the Local Initiatives Support Corporation, NeighborWorks America, and others). The goal is to revive a normal, functional, single family real estate market through strategic investment tied to efforts which engage the private sector on a long-term, sustainable basis.

As of today, the Minneapolis First Look Program has taken a "first look" at hundreds of properties and has closed on over 100 properties in Minneapolis. Some of these homes will be distributed to the 9 non-profit community developers awarded Minneapolis Neighborhood Stabilization Program resources to rehab units, of which over fifty percent will be targeted to households at 50% of area median income (\$40,500 for a family of four).

First Look and the Neighborhood Stabilization Program provide for immediate reinvestment in our neighborhoods most highly impacted by foreclosures and will bring families back into homes in Minneapolis. A core component of our aggressive and innovative fight against foreclosures has been to regain control of and revitalize foreclosed properties to get them back into the hands of strong, stable home-owners.

As a part of NSP, the Twin Cities Community Land Bank intends to purchase for its public partners in the City of Minneapolis and the Twin Cities Metro Area, 2000 residential properties and parcels in targeted communities with the goal of rehabbing the properties and creating sustainable homeownership or rental

opportunities for individuals and families. The Land Bank will also act as a lender to developers undertaking rehabilitation and new construction. Finally, Twin Cities Community Land Bank will provide additional community services to address barriers to community revitalization, such as developing creative homeownership financial products and coordinated neighborhood marketing.

The NCST *First Look* program provides an efficient and cost effective mechanism for transferring vacant and foreclosed properties directly from banks and servicers to approved buyers at an adjusted and highly favorable price before properties go on the market. The *Aged/Targeted Bulk Purchase* program provides an opportunity to purchase clustered properties, thus magnifying the opportunity to significantly improve a neighborhood.

Primary Challenges Faced by Minneapolis in Implementing NSP and changes to NSP both the Department of Housing and Urban Development and federal lawmakers should consider

The primary challenges the City of Minneapolis is working to overcome are competition with investors, limited funding resources for reinvestment and foreclosure prevention, and other NSP requirements that may impact the ability to act quickly or effectively due to the regulations. The City of Minneapolis surveyed our community partners, including our non-profit NSP1 developers. Changes to improve the timely and effective implementation of NSP were identified, including: strategies to compete with investors; additional funding for neighborhood reinvestment - to prevent foreclosures and rehabilitate foreclosed homes, and other regulatory issues with NSP. Outside of NSP, a priority for homeowner purchase of vacant and foreclosed homes in impacted neighborhoods would assist in long-term market recovery.

Investor competition: Minneapolis is pursuing an aggressive property acquisition when the housing market is low and properties are inexpensive. Minneapolis has developed multiple strategies to compete with investors in order to prevent the turn-over of single family homes to rental. The First Look program is a primary tool to strategically acquire foreclosed properties to rehabilitate or sell directly to homeowners. This tool will be enhanced by the innovative Twin Cities Community Land Bank. This success may be at risk due to the increase market demand and the rise in short sales, Deeds in Lieu, Contract for Deed and other similar activities.

Investor competition is a main challenge in bringing foreclosed properties on the market to homeowners. A homeowner with a FHA approved mortgage with a 30 day approval time does not compete with cash-in-hand private investors. Sellers have accepted lower cash offers the higher offers of our non-profit NSP developers that are subject to NSP requirements. NSP developers have also lost properties where the sellers offer price did not meet the 1% discount; and the seller would not reduce the price and sold to an investor. Properties prime for rehabilitation and homeownership are being lost to private investors.

Minneapolis currently has a 12-month short sales inventory and one-month foreclosure inventory without adequate tools to compete for short sales with private investors. Short sales are not eligible in NSP. NSP will be more successful in assisting housing markets to recover from the impacts of foreclosure if short sale properties are eligible. The lack of uniformity in lender practices regarding short sales, with up to 6 -14 month processing timelines, have forced potential homebuyers and their realtors to shy away from even considering the purchase of short sale homes. With the majority of these homes being purchased by investors, the strides made to promote homeownership in these neighborhoods impacted by foreclosures with programs such as NSP and First Look may be seriously undermined.

The foreclosure process is long, and in many cases in the hardest hit areas it results in buildings sitting vacant and subject to crime and vandalism further contributing to the decline of the surrounding housing and

the neighborhood overall. Allowing purchase of properties through a short sale may also allow for stabilizing structures while they are still occupied with responsible tenants therefore mitigating the effects of the foreclosure. The purchase of properties in this phase of foreclosure prevents the household of having the foreclosure on their credit rating and allows them to have the opportunity of purchasing another home in the not too distant future and assists them with finding immediate alternative housing.

Changes to NSP to address investor competition:

- Develop strategies for homebuyers with a now 30 day purchase process to compete with immediate cash offers
- Address NSP and CDBG regulations that slow the purchase process for developers using NSP funds
- Expand eligible properties to include short sales by changing the definition of foreclosure

Limited funding for neighborhood stabilization: The City of Minneapolis, the Twin Cities Community Land Bank and our partners have leveraged over \$30 million in resources to match NSP funds, yet we have had to pass on many properties because of the need to target limited resources and the prohibitive cost to redevelop some of the properties. Each property requires layering of multiple acquisition, construction, and affordability gap financing sources which slows the process and can impact our ability to acquire strategically located properties.

Additional funding is also necessary to prevent foreclosures; to assist with loan modifications, employment services to connect at risk homeowners with opportunities to increase their income, or funds to make emergency repairs to keep people in their homes. NSP is not designed as a foreclosure prevention program. If a non-homesteaded property is foreclosed and the tenants are evicted, they too are victims. Funds to allow for these families to be housed as opposed to being victims of the foreclosure are needed.

Changes to address limited funding for neighborhood stabilization:

- We support efforts to bring forward an NSP3 program and to complete foreclosure recovery efforts in impacted areas
- Provide funds for foreclosure prevention activities
 - Mortgage foreclosure counseling to assist with successful HAMP and HAFA applications
 - Emergency crisis repair funds to prevent foreclosure
 - Employment services to increase household income
 - Foreclosure related assistance to stabilize renters and prevent homelessness

Other issues and changes in NSP regulations that are of concern: Compliance with NSP and CDBG regulations slows the process in a market that requires immediate response and may also have other unintended consequences. Flexibility in the timing of requirements for appraisals, discounts, environmental review, and tenant occupancy are necessary for NSP developers to compete with private investors.

Purchase offers require contingencies for appraisal and environmental review: These contingencies make it challenging for subrecipients offer to be competitive. The environmental (SHPO) is a pre-requisite to rehab projects, regardless of if the findings do not have an impact on the re-use. This results in investors usually having the upper hand and could have an impact on the 18 month obligation.

Tenant occupancy: Documenting that property was not occupied by a tenant at the time of foreclosure or afterwards, before the offer is made slows the process and may result in loss of the property. The foreclosing entity may not sign a contingency that verifies the 90 day vacancy requirement. Subrecipients must assume the risk of paying relocation funds if they can't verify. This results in investors usually having the upper hand and could have an impact on the 18 month obligation.

Sustainable housing for households at 50% AMI: The practical effect of this requirement in Minneapolis is to reconcentrate households of color and households with low-incomes in neighborhoods with the highest concentration of poverty. The requirement (25% of all funds) should spread across all activities, at a minimum to provide greater opportunities for sustainable homeownership for these individuals, families, and our neighborhoods. To effectively serve households whose income is at or below 50% AMI, the requirement should be for a percentage of units produced for all of the activities versus total funds received.

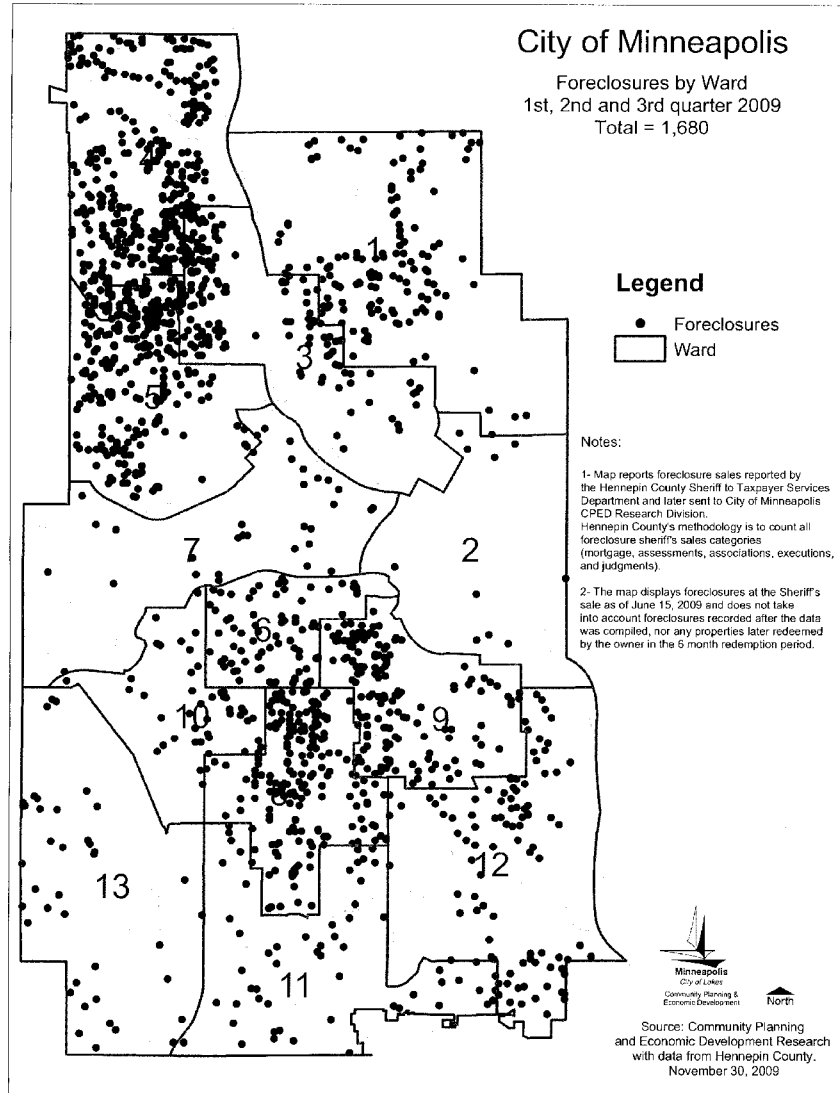
The exclusion of development being done under Activity E, which in our area are vacant abandoned buildings which are a blighting influence on the community and the City as a whole, further complicates our ability to address the neighborhoods, properties and households hardest hit and house lower income households. The Redevelopment activity E does not credit the count of 50% AMI households when the property is only vacant and not foreclosed. A family with income at 50% AMI is not counted towards the 25% if the property is not foreclosed. This makes the 25% threshold harder to meet.

Conclusion

Thank you for the opportunity to share some of my experiences with implementation of the Neighborhood Stabilization Program in Minneapolis. Foreclosure Recovery is well underway yet it will require the continued combined efforts of all partners in all sectors to reach our destination. I hope that the collaborative and innovative programs developed in the City of Minneapolis will hasten that recovery and serve as a model for other communities.

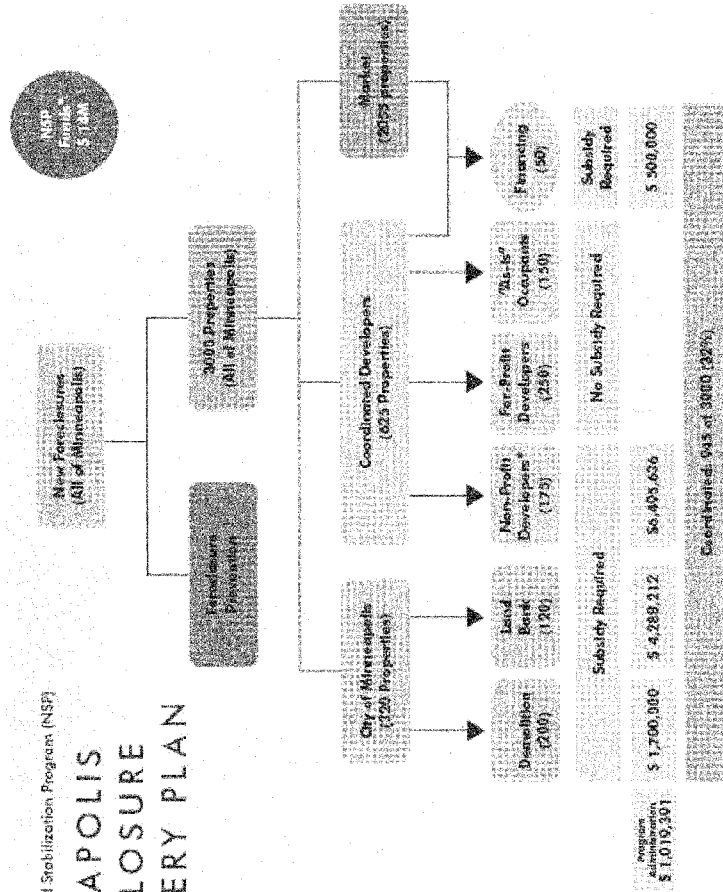
Minneapolis Key Partnerships:

National Community Stabilization Trust
 Family Housing Fund
 Local Initiatives Support Corporation
 Minnesota Housing Finance Agency
 Hennepin County
 Brooklyn Park
 Minneapolis Consortium of Community Developers
 Minnesota Homeownership Center
 Minnesota Foreclosure Partners Council
 Neighborhood Housing Services
 Pohlman Family Foundation
 Northway Community Trust
 Tree Trust
 Fannie Mae
 Wells Fargo
 General Mills Foundation
 Franklin National Bank
 Home Depot Foundation
 Minneapolis Association of Realtors
 Neighborhood Associations, Community Councils and Partnerships



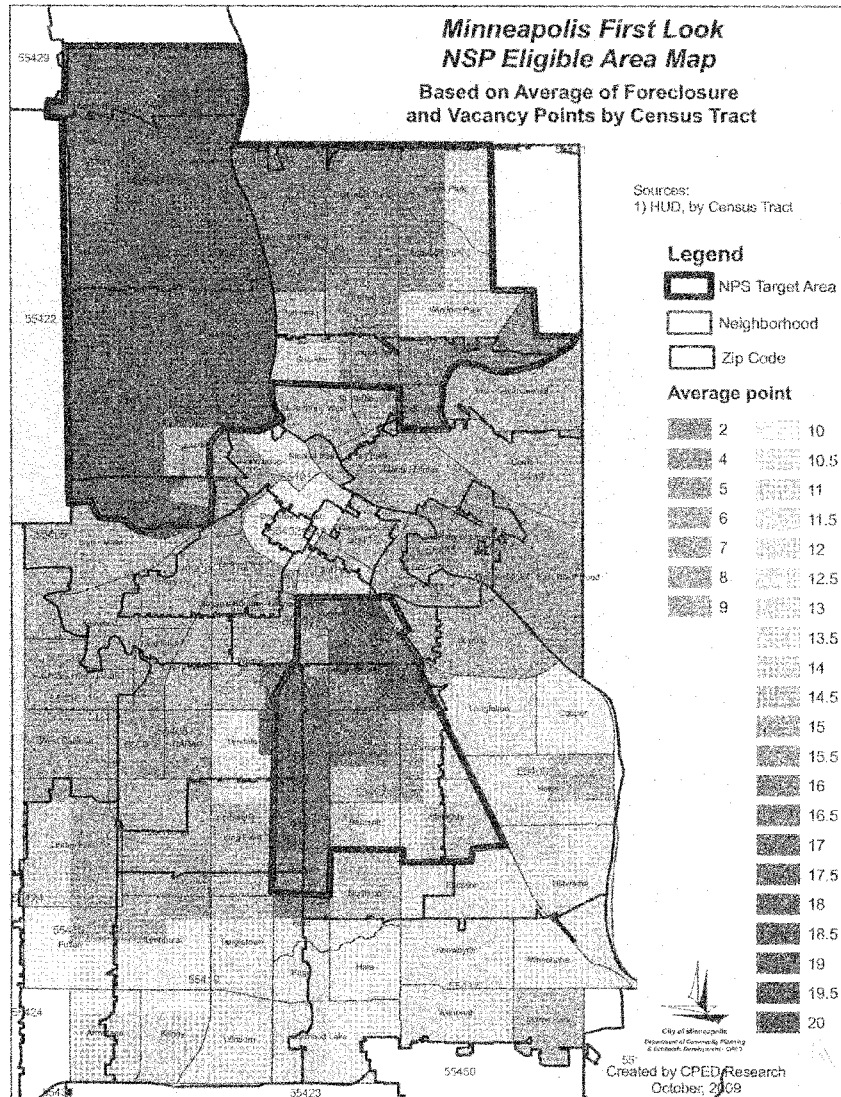
HERA Neighborhood Stabilization Program (NSP)

MINNEAPOLIS FORECLOSURE RECOVERY PLAN



* HERA Neighborhood Stabilization Program requires that 25% of the funds received must be targeted to households at or below 50% of area median income (AMI), or \$40,450 in Minneapolis. 175 properties will yield 238 units.

Notes: There may be duplications in the numbers of coordinated properties. The number of properties may project the ability to recycle funds.



Testimony submitted by Leslie Parks for the Congressional Record on January 22nd, 2010

To be included as part of prepared testimony presented at the January 23rd Subcommittee on Housing and Community Opportunity Field Hearing, re.

The Impact of the Foreclosure Crisis on Public and Affordable Housing in the Twin Cities

My name is Leslie Parks. I am here to discuss with you a very important matter that has not only affected my mother, grandmother and I, but many people around the state and in this country. I am writing to discuss foreclosed homes, and the problems of banks distorting the rates of home mortgages. I am a victim of a foreclosed home whose house was on the verge of being sold onto the market because of a switch from a fixed rate loan to an adjustable rate mortgage.

How it all happened:

The story of our crisis is not simple enough to explain. On November 18th 2005, my mother refinanced the loans she had on her duplex in Minneapolis on Park Avenue so she could look after my 88 year old grandmother (my mother's mother). The duplex is one of her two properties she owns. I live in the duplex which I rent from her, and she lives in a home she purchased a decade before. For my mother Tecora, she had the necessary qualifications she needed to apply for a fixed rate conventional loan to the city mandated upgrades of the windows in the duplex. When she met our loan broker, she was told to sign paperwork for the loan and was told to not date any of the paperwork. This is considered illegal by law to authorize. What she believed was a signature of coverage for some law required updates on our property turned into an increase mortgage that was fixed for 6 months, then changed to every month thereafter. It did not take us long to figure out that she had been forced to sign into a teaser rate Adjustable Rate Mortgage (ARM). The loan broker could have given my mother a home equity line of credit, or a home improvement loan, but he decided to treat us unethically. Not only did the mortgage go up because of the ARM, my mother was charged excessively high fees for his service.

The effects of the ARM:

The loan broker who tricked my mother to sign the ARM has since gone out of business due to how the state of Minnesota has changed the way a loan broker could do business. Because of how this man chose to deceive her, my mother reached out to Indy Mac Federal Bank. This bank only made things worse by denying to my mother the paperwork that they claimed was never sent to them. This bank found a way to raise the payment of the duplex from \$1300 a month to \$2300 a month. Not only was my mother effected by the increase mortgage, I was too. I have rented from my mother's duplex for over a decade, and have lived there even after she moved to a new home. I had never dreamed that something so simple as applying for a loan could do so much damage. My mother couldn't see this either. My mother could afford paying both properties, until the loan broker forced us into the ARM. Things just continued to get worse.

On the 18th of May 2006, I came home from work to discover that I was locked out of my property. There was never a notice given to me about this unlawful action which I soon found

out was a break in by the Indy Mac Federal Bank. I eventually got access to my home again after calling a locksmith. A couple of years later, the same incident happened to me and I had to take action on this. I took the Indy Mac Federal Bank to Court over their actions which they claimed was a mistaken belief the property had been vacant.

What I want:

The stress of having my property which is a property of my family has made us all very ill. I don't ask for much other than the Indy Mac Federal Bank working with us to bring down the cost of our property. My mother has never done anything unlawful or hurt another person. She is a wonderful law abiding citizen who loves everyone around her very much. Recently, she has had to undergo kidney surgery, and has come close to dying from heart failure because of the stress caused by the banks. We do not deserve punishment by the banks like this. All we want is our lives back and for this mess to come to a complete stop.



January 23, 2010

The Honorable Maxine Waters
 Chairwoman
 Subcommittee on Housing and Community Opportunity
 Committee on Financial Services
 House of Representatives
 Washington, DC 20515

Dear Chairwoman Waters:

Thank you for coming to Minneapolis to hold a hearing of your subcommittee to examine "The Impact of the Foreclosure Crisis on Public and Affordable Housing in the Twin Cities." We appreciate you giving attention to this critical issue. Rebuilding Together believes affordable housing is the key foundation needed before other goals such as education, employment, family stability and independence can be achieved.

Bringing volunteers and
 communities together to
 improve the homes and lives
 of homeowners in need.

As you well know, many cities like Minneapolis have been hit very hard by the foreclosure crisis, and the ripple effects hurt the entire community, not just the families of those whose homes are lost by foreclosure. The purpose of my writing is to point out the particular area of affordable housing that Rebuilding Together serves -- that of the low-income homeowner.

As in other cities, the low-income neighborhoods in Minneapolis have many owner-occupied homes. Many of these homeowners are long-time residents living on fixed incomes, some owning their homes outright having paid off the mortgage. They are not, however, part of the wave of home buying and below-rate mortgages that exacerbated the foreclosure crisis. Nevertheless, these low-income homeowners are very much affected by the foreclosures taking place around them. As their neighbors lose their homes, they see the fabric of their community weakening. Boarded up and abandoned homes have a chilling effect in that they breed insecurity among the residents who remain. They are further weakened by the lack of confidence local banks then have in these areas, and the resulting inability to secure loans for needed repairs and upkeep.

At Rebuilding Together Twin Cities, we know this is the case among the low-income homeowners we serve. We are seeing an increased need for our home repair and rehabilitation services, which we provide free of charge to homeowners in need. The hole in the roof or the rotten windows cannot wait for the bank to feel better about providing a loan.

It is very unfortunate that the HUD Neighborhood Stabilization Program (NSP) funding is not available to existing homeowners who are in dire straits, not because they face foreclosure, but because they can't afford needed repairs and can't secure

loans for this work. After foreclosure, the horse has already left the barn! To truly preserve homeownership and stabilize neighborhoods – the mission of Rebuilding Together – we believe HUD should have a program dedicated to helping such homeowners. The foreclosure crisis is serious enough to justify the multi-billion dollar NSP. In the very same vein there should be a separate program, outside of the CDBG program, to help fund home repairs for low-income homeowners residing in the neighborhoods hit by foreclosure.

Rebuilding Together Twin Cities' mission is to bring volunteers and communities together to improve the homes and lives of low-income homeowners. This assures that low-income homeowners – particularly older adults, people living with a disability and families with children – live in warmth, safety, and independence. An affiliate of the national Rebuilding Together organization, Rebuilding Together Twin Cities has been preserving and revitalizing homes and communities in the Twin Cities metropolitan area since 1997. Programs provide opportunities for community involvement and support for community volunteers. Through sponsors and volunteer efforts, we also strive to have an impact on communities and the non-profit places where neighborhood members gather.

The national organization of Rebuilding Together, based in Washington, DC, is the largest nonprofit working to preserve affordable homeownership and revitalize neighborhoods by providing home repair and renovation services free of charge to those in need. Through 206 affiliates nationwide, and with the support of corporate sponsors, local businesses and the hands-on work of over 200,000 skilled and unskilled volunteers, Rebuilding Together renovates and repairs over 10,000 homes and community centers annually, creating a market value of nearly \$100 million.

In addition to our core home repair work, Rebuilding Together conducts home modification and repair programs that focus on elder home safety, energy efficiency, veterans housing, and disaster recovery and reconstruction.

Thank you for the opportunity to submit this letter. We request that it be made a part of the hearing record.

Respectfully submitted,



Kathryn Greiner
Executive Director

Cc: Congressman Keith Ellison